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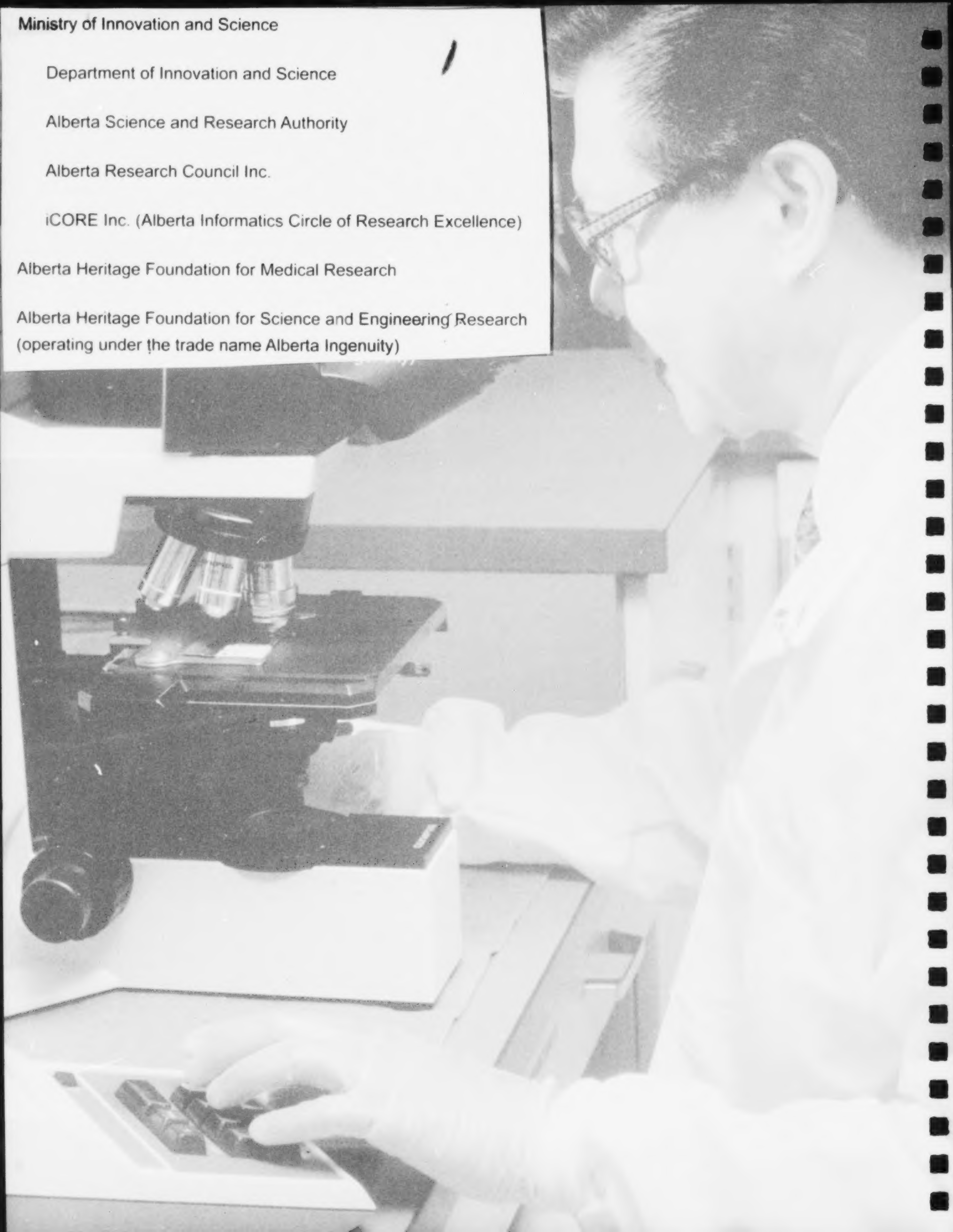
Alberta Innovation and Science Annual Report 2005–06

Alberta Innovation and Science

- Ministry of Innovation and Science
    - Department of Innovation and Science
    - Alberta Science and Research Authority
    - Alberta Research Council Inc.
    - iCORE Inc. (Alberta Informatics Circle of Research Excellence)
- Alberta Heritage Foundation for Medical Research
- Alberta Heritage Foundation for Science and Engineering Research (operating under the trade name Alberta Ingenuity)



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Alphabetical List of Entities' Financial Statements in Ministry 2005-06 Annual Reports 185

AARI	Alberta Agricultural Research Institute
AERI	Alberta Energy Research Institute
AFRI	Alberta Forestry Research Institute
AHFMR	Alberta Heritage Foundation for Medical Research
AICTI	Alberta Information and Communications Technology Institute
ALSI	Alberta Life Sciences Institute
ARC	Alberta Research Council Inc.
ARECCI	Alberta Research Ethics Community Consensus Initiative
ASRA	Alberta Science and Research Authority
ASRIP	Alberta Science and Research Investments Program
ASTech	Alberta Science and Technology Leadership Foundation
CFI	Canada Foundation for Innovation
CO_2	Carbon Dioxide
CREBA	Community Research Ethics Board of Alberta
DCIO	Departmental Chief Information Office
EIP	Equipment and Inventory Purchases
EIR	Executive in Residence
EnergyINet	Energy Innovation Network
GOA	Government of Alberta
HTA	Health Technology Assessment
I-CAN	Innoventures Canada
iCORE Inc.	Alberta Informatics Circle of Research Excellence Inc.
ICT	Information and Communications Technology
IFASA	Institute for Food and Agricultural Sciences, Alberta
IMUS	Integrated Manure Utilization System

MLA	Member of The Legislative Assembly
MOU	Memorandum of Understanding
NAICS	North American Industry Classification System
NINT	National Institute for Nanotechnology
RTNA	Research Transfer Network of Alberta
SEARCH	Swift Efficient Application of Research in Community Health
SPOT	Systeme Pour l'Observation de la Terre
TC	Technology Commercialization
TCIP	Technology Commercialization Internship Program
WEPA	Western Economic Partnership Agreement

Public Accounts 2005–06

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 26, 2006 contains the Minister of Finance's accountability statement, the consolidated financial statements of the province and a comparison of the actual performance to desired results set out in the government's business plan, including the *Measuring Up* report.

This annual report of the Ministry of Innovation and Science contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance to desired results set out in the Ministry business plan. This Ministry annual report also includes:

- The financial statements of entities making up the Ministry including the Department of Innovation and Science and provincial agencies for which the Minister is responsible.
- Other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report.

Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2006, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 1, 2006 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

George VanderBurg
Acting Minister of Innovation and Science

Alberta's strong economic growth creates high demand for new products and services to respond to development and market opportunities — a demand for innovation. The Government of Alberta recognizes that innovation depends on several critical inputs, and it is this Ministry's job to ensure some of those inputs are provided.

In the past year, with the support and advice of the Alberta Science and Research Authority, Ministry staff engaged in key activities to support research, encourage investment and attract the people needed to build a diverse and globally-competitive economy. Specifically, the Ministry has:

- Created two new research institutes, the Alberta Life Sciences Institute and the Alberta Information and Communications Technology Institute.
- Focused resources in areas of economic opportunity, including clean coal technology, carbon dioxide capture and storage, hydrocarbon and bitumen upgrading, bio-energy, information and communications technology, agri-foods and bioproducts.
- Built valuable research partnerships and networks with private companies, such as IBM, Hewlett-Packard, Varian Inc., Roche Molecular Diagnostics and Roche Pharmaceuticals, and organizations in other countries, including Finland, Korea and China, to enhance research and commercialization.
- Raised Alberta's profile in the province's priority sectors: energy, information and communications technology and life sciences; through Innovation and Investment Week, the Alberta Science and Technology Leadership Foundation Awards, participation in the world's largest biotech conference in Philadelphia, and missions to California and China.
- Attracted and retained highly-qualified people through iCORE, Alberta Ingenuity and the Alberta Heritage Foundation for Medical Research. iCORE established three new industry chairs and research clusters this year.
- The Ministry's research capacity-building programs provided 23 projects with $3.4 million.

These activities, and the many more outlined in this report, put Alberta in a better position to unleash innovation, which is a key pillar of the government's plan to maximize the province's potential in the global economy. This means that our researchers, academic institutions and businesses are able to pursue innovations that will increase Alberta's prosperity, improve our quality of life and guide sustainable development for the future.

The government's commitment and its actions to achieve these goals are reinforced by the many institutions and industry partners that support critical activities. To them, and the staff of Alberta Innovation and Science, I extend my thanks and congratulations.

George VanderBurg
Acting Minister of Innovation and Science

The Ministry of Innovation and Science includes:

- Department of Innovation and Science
- Alberta Science and Research Authority
- Alberta Research Council Inc.
- iCORE Inc.

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual reports, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Innovation and Science. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control, which give consideration to costs, benefits, and risks that are designed to:

- Provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money.
- Provide information to manage and report on performance.
- Safeguard the assets and properties of the province under Ministry administration.
- Provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Innovation and Science any information needed to fulfill their responsibilities.
- Facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

Bob Fessenden
Deputy Minister
September 1, 2006

Vision

Alberta prospers through innovation.

Core Business

The Ministry 2005–08 business plan lists one core business — innovation.

Ministry activities contribute to "Unleashing Innovation", a key area of opportunity identified in *Today's Opportunities, Tomorrow's Promise*, the government's 20-year strategic plan.

Activities in 2005–06 helped the Government of Alberta meet its goals and targets for:

- Accelerating innovation in Alberta, with emphasis on increasing commercialization of research, and industry growth.
- Building the capability and capacity of the research system.
- Building research excellence in the priority areas of energy, information and communications technology (ICT) and life sciences.
- Encouraging and supporting innovation within the Government of Alberta.

Key Accomplishments in 2005–06

The Minister of Innovation and Science is responsible for the administration of legislation relating to the Alberta Heritage Foundation for Medical Research (AHFMR) and the Alberta Heritage Foundation for Science and Engineering Research (operating under the trade name Alberta Ingenuity). The key accomplishments of these foundations are included in the section of this report titled "Information on Alberta Heritage Foundations."

- The Ministry received a one-time budget allocation of $30.0 million to extend AVAC Ltd. services to the key growth sectors of ICT, life sciences and industrial technology. These services will increase the rate of technology adoption in these sectors and contribute to the growth and success of Alberta's high-technology industries. The prime role of AVAC Ltd. is to help access investment capital for value-added ideas and innovations.
- Innovation and Science supported activities during Innovation and Investment Week to spur investment in Alberta innovations. Activities included a private equity event for potential investors, the largest-ever Banff Venture Forum, the first Alberta Life Technologies investor forum, and a Western Canada Angel Presidents' Forum.
- Fourteen Government of Alberta departments and organizations were awarded Innovation and Service Excellence Program funding support totaling close to $32.0 million over a three-year term to undertake 35 projects that will enhance service delivery to Albertans or accelerate the application of innovation in Alberta. During the 2005-06 fiscal year, $5.1 million was allocated to recipients.

- Innovation and Science built research partnerships and networks with private companies such as IBM, Hewlett-Packard, Varian Inc., Roche Molecular Diagnostics and Roche Pharmaceuticals, and organizations in other countries including Finland, Korea and China, to enhance research and commercialization.
- The Ministry provided over $3.4 million to 23 research projects across the province through the Small Equipment Grants Program reported under the auspices of the Alberta Science and Research Investments Program. Projects included a state-of-the-art laboratory for research to improve detection of atmospheric pollutants, a three-dimensional virtual reality surgical planning system for treating lung cancer and equipment to assist plant pathology researchers understand disease in canola.
- The Alberta Energy Research Institute (AERI) worked with seven industry partners to promote a Hydrocarbon Upgrading Demonstration and Training Facility, which will lead to innovations in upgrading bitumen to high-value oil, refined products and chemicals.
- The Alberta Research Council Inc. (ARC), AERI and several industry partners funded the $1.2 million Optimization of Enhanced Gas Recovery project to research and develop a technique for recovering gas from the province's mature, deep gas pools that cannot be recovered using current methods.
- AERI also examined the development of alternate energy sources, specifically the use of geothermal heat in the production of oil sands and the generation of electricity from municipal waste.
- The Ministry provided $1.2 million to the University of Lethbridge for the Alberta Terrestrial Imaging Centre. This centre is North America's primary receiving and distribution station for images taken with SPOT satellite technology.
- iCORE established three industry chairs: multimedia, computer process control, and quantum cryptography and communication research. It also created three new areas of research focus: wireless networks, intelligent software systems and new architectures including nanotechnology and quantum computing.
- The Alberta Agricultural Research Institute (AARI) provided funding for the newly established Oil and Lipids Centre at the University of Alberta which helped to attract significant investment from industry and the federal government to this initiative. The world's largest team of lipid utilization scientists will work in state-of-the-art facilities to develop new food uses (e.g. low trans-fat foods) for oilseed crops like canola and flax as well as non-food uses such as bio-lubricants, bio-hydraulics, specialty chemicals and bio-plastics.
- AARI along with the Alberta Livestock Industry Development Fund and industry partners established a Livestock Genomics Program to improve market value for products, reduce costs, solve health issues and improve product tracing in the livestock industry.

Highlights

Performance Measures

- Investments by the Government of Alberta (GOA) to support innovation totalled $389.9 million and amounted to 1.6 per cent of total expenditures. Expenditures on activities supporting innovation are increasing. These investments in research, development and innovation are important components that support the overall strategies of the provincial government. The growth of investments in innovation demonstrates government's commitment to achieve long-term prosperity.
- Alberta's research system remains strong as demonstrated by the level of sponsored research revenue at Alberta universities — $650.5 million, exceeding the target of $606.0 million. The increase is, in part, attributable to capital investments by the Government of Alberta in large-scale research facilities at Alberta universities. Sponsored research funding has nearly doubled since 2000–01, reflecting Alberta's success in garnering research awards and new investments.
- The Alberta Energy Research Institute was instrumental in establishing the Energy Innovation Network (EnergyINet) as a national entity in 2005. EnergyINet now includes 19 organizations exceeding the target of 10 organizations for 2005–06. This is due to the high interest in this initiative shown by the private sector, Alberta government departments and other levels of government across Canada. In addition, some companies from outside of the energy sector have also joined EnergyINet.
- iCORE Inc. exceeded its target for 23 active research chairs by one, as chair renewals for the past year were higher than expected. There were 105 new awards to graduate students in 2005–06 (target was 80) and 263 active graduate students attracted to and retained in Alberta by iCORE support (target was 200).

Financial Performance

Spending was within approved targets and directed to the Ministry's core business. Expenses for the Ministry totalled $199.1 million for 2005–06. Significant programs within Innovation and Science included:

- $61.4 million for Alberta Research Council Inc.
- $30.0 million for a one-time budget allocation to extend AVAC Ltd. services to the key growth sectors of ICT, life sciences and industrial technology.
- $32.0 million for the Alberta Science and Research Investment Program as well as Science Awareness.
- $15.4 million for life sciences research.
- $14.3 million for energy research.
- $11.3 million for iCORE Inc. to build research capability in ICT.
- $5.1 million for the Innovation and Service Excellence Program to encourage innovation within the Government of Alberta.
- $4.9 million to facilitate technology commercialization.
- $4.3 million to facilitate emerging opportunities.
- $3.8 million to facilitate information and communications technology research.

Equipment and Inventory Purchases for the Ministry totalled $8.1 million for 2005–06, including $1 million for the Innovation and Service Excellence Program and $6.7 million for ARC for research equipment and construction.

Summary of Key Activities in the Past Year

Goal 1: Accelerate Innovation

Investments in research lead to innovative ideas, products and processes that, if commercialized in Alberta, have the potential to yield significant economic and social benefits for the province.

Generating Innovation

Department of Innovation and Science:

- Supported a Memorandum of Understanding (MOU) between The Banff Centre and Cyberport of Hong Kong. The MOU will foster collaboration within the digital media sector between small and medium-sized enterprises in Hong Kong and Alberta in the areas of research and development, scientific and professional exchange, education and training, and partnerships.
- Launched the E-Health Industry Project at the Foothills Hospital (University of Calgary) under the Western Economic Partnership Agreement (WEPA). In this project, companies, researchers and health practitioners will help to identify, develop and test new e-health products and services. The Ministry and WEPA funds will support a service component of this project, which includes showcasing the physical space, video conferencing facilities, and research and development test-bed incubator space.
- Developed a joint project for the Calgary/Oulu Corporate Health and Wellness Project under an existing MOU with Finland to assess the effectiveness of using monitors to raise the fitness performance of corporate employees. The project grew out of a mission to the United Kingdom, Sweden and Finland by the Ministry, Foothills Hospital and Dynastream Innovations Inc. A Finnish proposal for joint research on wireless hospital interoperability standards will also be explored.
- Facilitated an agreement between TRLabs and South Korea's iPark Silicon Valley that will allow Korean companies to use TRLabs and SuperNet infrastructure to incubate and pilot new technologies.
- Held the first Technology Forum focused on life sciences, ICT and advanced materials between Alberta, the Korean Ministry of Science and Technology and the Province of Gangwon, in Gangwon-do, Korea. The forum flowed from a letter of intent on research and development cooperation between the Ministry and the Department of Industry and Economy of the Province of Gangwon, Korea.
- Awarded Innovation and Service Excellence Program funding of nearly $32.0 million to 14 Government of Alberta departments and organizations. The funding supported 35 projects that identified, developed or implemented innovations to improve service delivery to Albertans or accelerated the use of innovations in the province.

Promoting Commercialization

Department of Innovation and Science:

- Supported a number of Alberta Innovation and Investment Week activities:
    - o Sponsored the largest-ever Banff Venture Forum attended by 280 local and international investors, presenting companies and government officials. The forum showcased 25 exceptional western Canadian high-tech companies, examined key issues in the industry and provided a premium networking opportunity.
    - o Sponsored the first Alberta Life Technologies Investor Forum showcasing Alberta's biotechnology and medical-device investment opportunities. Ninety local and international venture capital and angel investors, government officials and executives from Alberta's life sciences companies attended.

    - Hosted a private equity event that looked at the various vehicles available for private equity investment in Alberta and how the government can influence the private equity environment. Seventy-five people attended including investors from the United States and Alberta.
    - Sponsored a Western Canada Angel Presidents' Forum to build relationships between western angel investor organizations and to discuss best practices in running a successful angel group. Panel discussions covered a variety of topics including current trends in angel investing, introductions to angel organizations, due diligence, valuations and syndication.
- Received a one-time budget allocation of $30.0 million to extend AVAC Ltd. services to the key growth sectors of ICT, life sciences and industrial technology. This will allow new businesses in these sectors to access AVAC's managerial and financial assistance services, increase their rate of technology adoption, and contribute to the growth and success of Alberta's high-technology industries.

Alberta Research Council Inc.:

- Worked with 780 customers and partners, and managed 121 active licensing agreements during the fiscal year 2005–06. Over 40 Alberta companies grew their businesses using technology developed in collaboration with ARC.
- Received $2.4 million in royalties, licensing fees and product sales from the deployment of technology. During the last seven years, ARC generated more than $22.0 million in royalties, licensing fees and product sales.
- Maintained an intellectual asset portfolio consisting of 102 technologies that were protected by patent families. In addition, ARC managed 32 technologies on behalf of the Alberta Energy Research Institute and 15 for C-FER Technologies. ARC was granted 10 patents.
- Incorporated Innoventures Canada (I-CAN), along with the Centre de Recherche Industrielle du Québec, the Manitoba Industrial Technology Centre and the Saskatchewan Research Council. I-CAN provided facilities and expertise for prototyping, product development and commercialization to help improve the innovative performance of Canadian companies, especially small and medium-sized enterprises.

Did you know ... the province of Alberta has been twinned with the Chinese province of Heilongjiang for 25 years?

This long-standing relationship has proved valuable for many municipalities and sectors within Alberta. In January 2006, the launch of the new Alberta-Heilongjiang, Harbin Institute of Technology Research Innovation Centre marked the latest Alberta-Chinese collaborative initiative in the ICT sector.

http://www.iir.gov.ab.ca/international_relations/documents/Heilongjiang-2005.pdf
http://www.gov.ab.ca/acn/200601/19290D3FF04BB-F5D9-8F2C-5865343AAE70F1FB.html

Goal 2: Build research capacity in areas of strategic priority

Basic research, ideas and highly-qualified people are the foundation of the innovation system. Strong research capability at Alberta's universities, colleges and technical institutes is a critical building block for the future.

Research Capability and Capacity

Department of Innovation and Science:

- Directed over $3.4 million to 23 research initiatives across the province through the Small Equipment Grants Program. Projects included:
    - A state-of-the-art laboratory for research at the University of Lethbridge with equipment to improve the detection of atmospheric pollutants such as leaks in transmission and distribution pipelines.
    - A three-dimensional virtual reality surgical planning system for treating lung cancer at the University of Calgary. The system has the potential to be a platform for other surgical procedures and training such as minimally invasive robotics-assisted surgery.
    - Equipment to help plant-pathology researchers at the University of Alberta increase our understanding of how plant pathogens cause disease in plants, with a specific focus on improving disease resistance in canola.
- Committed $3.3 million over five years to the Banff International Research Station in support of internationally recognized research programs spanning pure, applied, computational and industrial mathematics, statistics and computer science. More than 4,000 mathematicians and scientists from 49 countries have participated in workshops at the research station.
- Received a total of 57 submissions from six post-secondary institutions for the 2005–06 Alberta Science and Research Investments Program. This program funds state-of-the-art equipment for multi-disciplinary research in areas of strategic priority to Alberta: energy, ICT and life sciences.

Did you know ... Alberta has Canada's most powerful MRI scanner for humans?

Researchers at the University of Alberta are developing a better understanding of how some neurological and psychiatric disorders affect the brain thanks to the enhanced images produced by the nation's most powerful magnetic resonance imaging (MRI) human scanner — a 4.7 Tesla. Dr. Christian Beaulieu is using this understanding to develop better detection and treatment strategies for stroke patients; Dr. Alan Wilman is studying the imaging benefits for Parkinson's disease and depression.

http://www.ahfmr.ab.ca/publications/newsletter/Spring02/spring.02/inside/brain.htm

Science Awareness

Department of Innovation and Science:

- Hosted the 5th annual Science and Technology Week, with the theme *Imagine Your Future*. With a goal of encouraging Alberta youth to consider careers in science and technology, activities included online games and information on research projects, careers and events happening across the province.
- Supported several science awareness and promotional programs including the Science Alberta Foundation, the Alberta Science Literacy Association and SCIberMENTOR.

Alberta Research Council Inc.:

- Donated a collection of 6,500 insects to Olds College to help educate students working on pest control.

Goal 3: Accelerate innovation in the energy sector

Energy, directly or indirectly, accounts for about half of Alberta's economy and contributes to more than 25 per cent of the revenue of the Government of Alberta. The *Alberta Energy Innovation Strategy* aims to increase the value realized from the province's energy resources, improve environmental performance and build a strong economy-now and in the future.

EnergyINet

Department of Innovation and Science:

- Incorporated with the help of its partners, EnergyINet as a not-for-profit corporation under the *Canada Corporations Act*, Part 2 on August 5, 2005. It now operates as a fully independent company with its own board of directors and is establishing itself as a nation-wide vehicle for collaborative research.

Carbon Dioxide (CO_2) Management

Alberta Energy Research Institute:

- Worked with EnergyINet to support the Western Canadian Fuel Cell Initiative, which will investigate, evaluate and develop impure hydrogen fuel cell technology and establish a CO_2 management program. Research activities focused on the geological sequestration of CO_2 and included measurement, monitoring and verification of CO_2 storage in a CO_2 enhanced recovery pilot project.

Clean Coal/Carbon

Alberta Energy Research Institute:

- Based on identified technical and economic gaps, the institute funded 10 multi-year projects leading to the adaptation of clean coal technology for Alberta's needs. This work involved collaboration between the University of Alberta, the federal government, the major coal and electricity companies in Canada, EnergyINet and the Electric Power Research Institute in the United States. The institute also participated in the development of Canada's Coal Technology Roadmap and the related CO_2 Capture and Storage Roadmap.

Bitumen Upgrading

Alberta Energy Research Institute:

- Worked with seven industrial partners to promote a Hydrocarbon Upgrading Demonstration and Training Facility. Studies are underway to assess technologies with breakthrough potential for upgrading bitumen to higher value synthetic oil and refined products.

- Continued collaboration with Nova Chemicals, the University of Calgary and universities in Germany and China on the conversion of oil sands-derived heavy oils for petrochemical production. In previous work, researchers developed a new family of catalysts for the heavy oil-cracking technology. In the current phase, researchers will design a pilot plant and process to be integrated into the Hydrocarbon Upgrading Demonstration and Training Facility.
- Provided support for the University of Alberta's Oil Sands Engineering Research Chair leveraging funding with industry, the federal government and the university. The program will enhance industry's ability to meet the challenges associated with today's mined oil sands technologies as well as explore technologies to reduce fresh-water use and manage oil sands tailings.
- Continued support for the National Centre for Upgrading Technology which the Government of Alberta and Natural Resources Canada jointly fund to develop and maintain a world-class centre of excellence for bitumen upgrading in Alberta.
- Continued to partner with ARC and twelve energy companies in the AERI/ARC Core Industry program to develop and improve heavy oil and bitumen recovery technologies.

Alternate and Renewable Energy

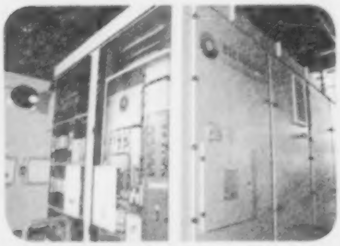
Alberta Energy Research Institute:

- With its partners, completed a feasibility study and bench-scale testing on the use of municipal waste to generate electricity at the Edmonton landfill.
- Provided technical analysis of project applications submitted to the Alberta Department of Energy's Innovative Energy Technologies Program. The Department of Energy announced funding for 13 innovative projects in November 2005.

Alberta Research Council Inc.:

- Continued pioneering early stage research into a new process for increasing natural gas production. The research is looking at using micro-organisms to enhance coal bed methane production and the regeneration of coal-stored CO_2 into methane.

Did you know ... Alberta has Canada's only 200 kW commercially operated high-voltage fuel cell?



Located within the Northern Alberta Institute of Technology, this self-contained energy system generates both electricity and heat — electricity to supplement the Institute's power needs and heat for the Institute's boilers and recreation facilities. A fuel cell is an emerging source of alternate energy that produces clean and quiet heat and power. A high-voltage fuel cell has never before been used as a primary energy source.

http://www.nait.ca/fuelcell/what.htm

Goal 4: Accelerate innovation in the information and communications technology sector

Information and communications technology (ICT) is vital to Alberta's economic future and will play a key role in improving all sectors of the Alberta economy. Attracting a critical mass of outstanding researchers and students in related disciplines strengthens Alberta's ICT sector.

Encouraging Innovation

Department of Innovation and Science:

- Established the Alberta ICT Institute (AICTI) to provide strategic advice and leadership to accelerate the growth and prosperity of the province's ICT sector and related activities.
- Established and opened the Alberta-Heilongjiang, Harbin Institute of Technology Research Innovation Centre in Harbin, China. The centre will be focused on data technology and knowledge development.
- Helped establish and fund the University of Alberta's Joint Research Labs project with the China Ministry of Science and Technology, which will focus on nanotechnology, environment and energy research.
- Provided $1.2 million to the University of Lethbridge for the Alberta Terrestrial Imaging Centre. This centre is North America's primary receiving and distribution station for images taken with SPOT satellite technology-images that improve the information available for decisions related to emergency response, pipeline monitoring, pine beetle containment and watershed research.

iCORE Inc.:

- Funded a new Institute for Biocomplexity and Informatics at the University of Calgary that will focus on new ways to treat cancer. The institute will use computing resources to test theories on cell growth, division and differentiation.

Did you know ... Alberta may soon be able to use carbon dioxide to simultaneously reduce global warming and increase oil production?

The PennWest enhanced oil recovery pilot project in central Alberta is testing new technologies for the underground storage of carbon dioxide produced from large industrial plants. The capture and storage of carbon dioxide may lead to lower greenhouse gas levels and may also make it easier to extract more oil and gas from underground reservoirs, helping to sustain fossil fuels for the long-term.

http://www.aeri.ab.ca/index.cfm
http://pennwest.com/operations/crude_pembina.html

Technology Development and Commercialization

Department of Innovation and Science:

- Established a partnership agreement with Hewlett Packard, all Alberta universities and The Banff Centre on collaborative research. Over the past year, a number of research initiatives developed from this agreement including:
  - Establishment of a high-performance computing data centre and research program at the University of Calgary. The Department of Innovation and Science will provide the university with up to $1.4 million of the estimated $6.0 million in costs.
  - Establishment of a research project to develop new nanosensors for medical and environmental detection applications at the National Institute for Nanotechnology. The estimated value of the research project is $1.7 million. The Department of Innovation and Science will provide $685,000 for development costs.
  - Establishment of a tele-immersion research project to develop the next generation of 3D video conferencing technology by the University of Alberta. This technology could eventually be used to enhance the quality of research and educational collaboration throughout Alberta using SuperNet and other networks. The estimated value of the research project is $693,000. The Department of Innovation and Science will provide $155,000 to the university for equipment and development costs.

iCORE Inc.:

- Established research focus areas in wireless networks, intelligent software systems and new architectures (e.g. nanotechnology and quantum computing). Potential topics are emerging in bioinformatics and human-machine interfaces.
- Initiated a comprehensive ICT study to survey the ICT market needs of the primary economic sectors in Alberta (energy, agriculture, forestry, health, education and telecommunications).

Business Growth and Investment Attraction

Department of Innovation and Science:

- Established a research agreement between IBM, the University of Alberta and the department to initiate the first research project at the newly established Alberta IBM Center for Advanced Studies. The Services Science Research Program Launch Project will focus on areas where the Alberta information technology industry can be competitive in global markets. The Department of Innovation and Science will provide $32,000 of the estimated $70,000 project costs to the university.

iCORE Inc.:

- Initiated ongoing discussions with Alberta Ingenuity, the Department of Innovation and Science and other ICT-related organizations such as TRLabs and Netera to ensure collaboration and communication on strategic investments in Alberta's ICT research and development capability.

High Quality People

iCORE Inc.:

- Established three new awards and renewed six awards for a total of 24 active research chairs, professors and industry chairs to support strategic areas. The three new awards (multimedia, computer process control, and quantum cryptography and communication research) involve industry partners-Suncor, Matrikon, Castlerock Research and General Dynamics. iCORE now has nine industry chairs in addition to 15 research chairs and professors.

Goal 5: Accelerate innovation in the life sciences sector

Alberta is focusing on new initiatives in bioproducts, health innovation, platform technologies, sustainable production and environmental technologies to support and augment the agriculture, energy, environment, forestry and health sectors of the economy, improve all Albertan's quality of life and build a sustainable future.

Bioproducts Research

Department of Innovation and Science:

- Established the Alberta Life Sciences Institute to provide leadership on research and technology commercialization in health, agriculture, forestry, water and the environment.
- Agreed to fund phase II of the Magnetic Resonance Diagnostic Center at the University of Alberta, jointly with Varian Inc. and the University of Alberta, and to support the commercialization of new diagnostic tests. The Department of Innovation and Science will provide $400,000 of the estimated $1.5 million project costs.
- Established the Alberta Transplant Institute Applied Genomics Center at the University of Alberta, along with Roche Molecular Systems Inc. The multi-million dollar project will support the commercialization of new diagnostic tests for transplant patient-monitoring being developed by the Genome Canada Transplant Transcriptome project at the university.
- Established Genome Alberta, with the support of the Alberta Science and Research Authority (ASRA), to lead Alberta's efforts in genomics research and innovation. The department awarded $4.0 million to six successful Genome Canada Competition III projects.
- Provided funding to the Alberta Synchrotron Institute to secure synchrotron access for Alberta's protein researchers until relevant beam-lines at the Canadian Light Source are operational in 2008.
- Provided support to BioProducts Alberta through the joint federal and provincial Western Economic Partnership Agreement. BioProducts Alberta is a new non-profit corporation that facilitates and promotes bioproducts research, technology commercialization and industry development.

Alberta Research Council Inc.:

- Hosted a workshop on Critical Issues in Bioproducts Development for participants from Alberta, Saskatchewan and Ontario in February 2006. Alberta Economic Development, the Alberta Forestry Research Institute, Alberta Sustainable Resource Development and Alberta Research Council collaborated on the event, which resulted in a shared knowledge base and understanding of what is required to foster the growth and development of Alberta's bioproducts industry.
- Focused the research and development capacity of its expanded Nutraceutical and Pharmaceutical Services unit on the development and growth of emerging life sciences companies. The unit will support process development and the production of bio-based products for companies for non-regulated uses such as soil inoculants and enzymes.
- Teamed up with Natural Resources Canada to create an online Biofuels Quality Registry. Biodiesel producers and users will be able to register on the ARC-hosted website and have their products tested for quality. The results will be entered into an accessible database and will contribute to development of an industry standard for biofuel analysis.

Water Management

Department of Innovation and Science:

- Developed a water research strategy through the Alberta Science and Research Authority, in cooperation with the Alberta Water Council. The strategy will support the development of innovations that will help to implement the government's Water for Life strategy.

Agricultural Research

Department of Innovation and Science:

- Established the Livestock Genomics Program with funding from key industry partners: the Alberta Livestock Industry Development Fund and the Alberta Agricultural Research Institute. The program, which will be conducted through the Institute for Food and Agricultural Sciences Alberta (IFASA), will focus on finding genomic solutions to:
    - o Increase the market value of meats and ingredients derived from meats.
    - o Reduce the cost of production of beef cattle.
    - o Address animal health issues in diagnostics, prevention and treatment.
    - o Develop cheap and effective tools to trace both live animals and cuts of meat from farm to market.

Alberta Agricultural Research Institute:

- Invested in the Oil and Lipids Centre at the University of Alberta that was established in collaboration with Bunge Oils, Agriculture and Agri-Food Canada and the Alberta Crop Industry Development Fund. This $6.25 million research program that will be conducted through IFASA will house the world's largest team of lipid utilization scientists in state-of-the-art laboratories and will revolutionize the use of oilseed crops and animal fats.

Alberta Research Council Inc.:

- Released six new varieties of native plant species suitable for reclaiming industrially disturbed lands in Alberta's Parkland region. These grasses and legumes show superior performance in the sandy soils common to that eco-region. ARC is one of the few Canadian organizations developing plant species for the reclamation industry.
- Led the Integrated Manure Utilization System (IMUS) research team that received the Outstanding Achievement in Applied Technology and Innovation Award at the 2005 Alberta Science and Technology Leadership Foundation Awards gala. ARC's industry partner, Highmark Renewables, received the 2005 Emerald Award for environmental stewardship in the small business category for the IMUS project. The IMUS partners also received the 2005 Growing Alberta Award for environmental stewardship.

Did you know ... about precision ranching?

Strategies to maintain healthy pastureland for cattle grazing is the aim of research into 'precision ranching'. Dr. Mick Price and his University of Alberta research team have created a three-dimensional digital model of the university's ranch in east-central Alberta, mapping out every feature from the grass roots to the trees to the cattle. Dr. Price says "We're trying to use modern electronic communications technology to ensure the right animal is in the right place at the right time."

http://www.innovation.gov.ab.ca/inv/sec/ursi/res_rep/doc/ASRIP_05_Annual%20Report.pdf (page 11)

Forestry Research

Alberta Forestry Research Institute:

- Developed a strategic business plan for 2006–11 and focused on sustainable forest management, value chain enhancement and new products. The next fiscal year will see further consultation with industry and other partners.
- Initiated, together with the Alberta Agricultural Research Institute and the Alberta Energy Research Institute, a WEPA project to evaluate existing technologies for biomass combined heat and power generation. The partners will select a technology bundle for a small to medium scale demonstration project that will lay the groundwork for a full-scale commercial demonstration.

Alberta Research Council Inc.:

- Continued to work with industry and government on the Alberta Biodiversity Monitoring Program. ARC is collaborating with the University of Alberta to test and refine the design of protocols, develop products and services that will aid land managers, and build further support from government, industry and non-government organizations.

Legislative and Policy Changes

Introduced the *Alberta Science and Research Authority Amendment Act*, 2005 to establish the Alberta Life Sciences Institute and the Alberta ICT Institute. The Act came into force on December 1, 2005 and is now incorporated into the *Alberta Science and Research Authority Act.*

Cross-Ministry Initiatives

Through cross-ministry initiatives, the Ministry of Innovation and Science worked with other ministries to ensure that programs and services aligned with the government's agenda and met the priority needs of Albertans, without overlap or duplication. In 2005–06, Ministry activities supported key objectives in a number of cross-ministry initiatives:

Leading in Learning and Skilled Workforce Initiative

- Participated in initiatives to attract and retain highly skilled workers and encourage Alberta organizations to adopt the innovative technology and business practices that will help them to commercialize new technology and compete in the world economy.

Did you know...the same technology used to save trees, can save lives?

Using geomatics, Dr. Naser El-Sheimy, from the University of Calgary, has developed a real-time mapping system allowing firefighters to better detect and contain forest fires. This same navigation sensor technology is now being combined with wireless communications potentially allowing 911 emergency calls from a cell phone to be geographically located anywhere on the globe.

http://www.innovation.gov.ab.ca/inv/sec/ursi/res_rep/doc/ASRIP_05_Annual%20Report.pdf (page 16)

Economic Development and Innovation Strategy

- Championed the strategy with Economic Development, Agriculture, Food and Rural Development and other departments to encourage collaboration between businesses, communities, public institutions, stakeholders and other levels of government to promote economic development and innovation.

Other Cross Ministry Activities

- Participated in ICT and Life Sciences Sector Team initiatives and Trade Team Alberta, working with regional economic development agencies and other organizations on collaborative projects and networking to support emerging industries.
- Worked with Economic Development, International and Intergovernmental Relations and other departments on incoming and outgoing science and technology missions to promote the Alberta Advantage globally and to support initiatives that advance technology commercialization and adoption in priority value-added sectors.

Operational Overview

Government Reorganization

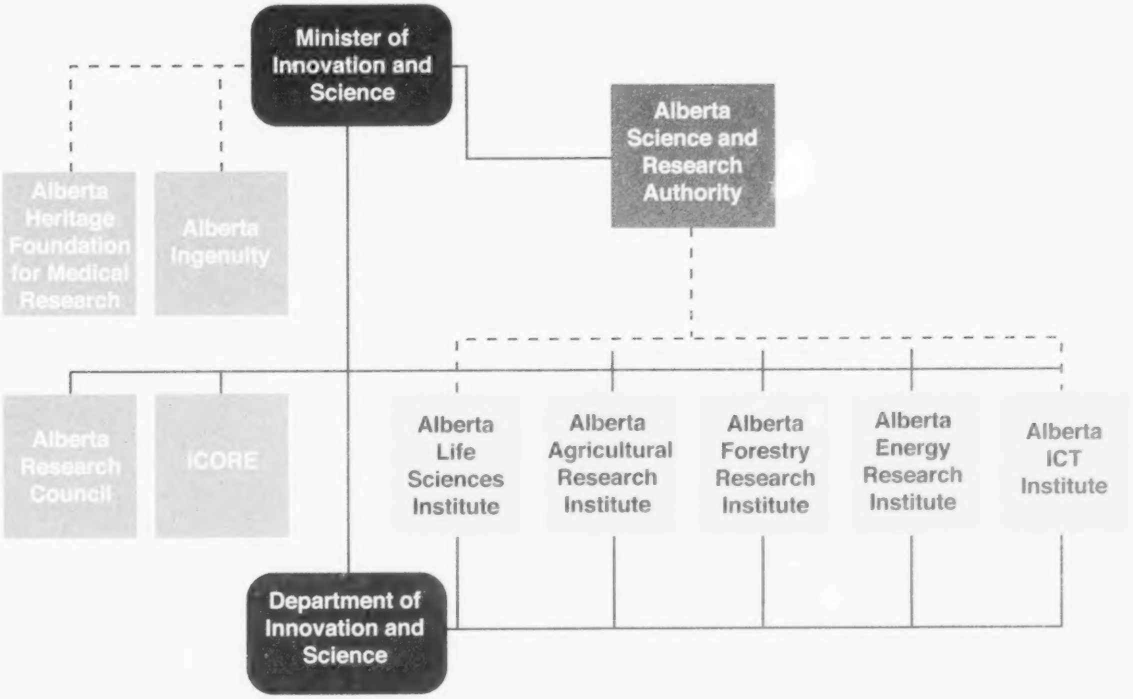
The Alberta Life Sciences Institute and the Alberta ICT Institute were made possible through the *Alberta Science and Research Authority Amendment Act*, 2005. The Act came into force on December 1, 2005 and is now incorporated into the *Alberta Science and Research Authority Act*.

Shares from iCORE Inc. and the Alberta Research Council Inc. were transferred from the Alberta Science and Research Authority to the Crown effective April 1, 2005.

The charts and descriptions in this overview reflect the Ministry structure as of March 31, 2006.

Overview of Key Boards and Agencies

Key Boards and Agencies (as of March 31, 2006)


Minister of Innovation and Science
Alberta Science and Research Authority
Alberta Heritage Foundation for Medical Research
Alberta Ingenuity
Alberta Research Council
iCORE
Alberta Life Sciences Institute
Alberta Agricultural Research Institute
Alberta Forestry Research Institute
Alberta Energy Research Institute
Alberta ICT Institute
Department of Innovation and Science

Alberta Science and Research Authority (ASRA)

ASRA is a provincial corporation comprised of members of Alberta's academic, business and research communities, appointed by the provincial Cabinet. ASRA's mission is to enhance the contribution of science and research to the sustainable prosperity and quality of life of all Albertans. In order to fulfill this mission, ASRA functions as the senior science and research advisory body to the Government of Alberta. ASRA includes:

- Alberta Life Sciences Institute.
- Alberta Agricultural Research Institute.
- Alberta Forestry Research Institute.
- Alberta Energy Research Institute.
- Alberta Information and Communications Technology Institute.

Alberta Life Sciences Institute (ALSI)

ALSI is an unincorporated board comprised of representatives from industry, academia and government. It provides strategic direction, sets priorities for research and monitors performance on the expansion of the province's bio-economy.

Alberta Agricultural Research Institute (AARI)

AARI is an unincorporated board comprised of representatives from industry, academia and government. It provides strategic direction in agricultural production and value-added products research and development, and coordinates investment in agricultural research and development for the province.

Alberta Forestry Research Institute (AFRI)

AFRI is an unincorporated board comprised of representatives from industry, academia and government. It provides strategic direction for, and encourages and supports private and public investment in, the economic, environmental, ecological and community sustainability of Alberta's forestry sector.

Alberta Energy Research Institute (AERI)

AERI is an unincorporated board comprised of representatives from industry, academia and government. It provides strategic direction to position Alberta for the future in energy development and invests in research and technology to enhance sustainable development of the province's abundant energy resources.

Alberta Information and Communications Technology Institute (AICTI)

AICTI is an unincorporated board comprised of representatives from industry, academia and government which provides strategic advice and policy recommendations to government, and sets priorities for research. It will expand and update the province's existing ICT research and innovation strategy and provide direction for public investment in research and development activities throughout the province.

Alberta Research Council Inc. (ARC)

ARC is a not-for-profit corporation owned by the Government of Alberta, through the Ministry of Innovation and Science. A board of directors that includes representatives from the business and research communities in Alberta governs the corporation. ARC delivers innovative science and technology solutions to meet the priorities of industry and government in Alberta and beyond. Integrated multi-disciplinary teams help customers and partners take technologies from the laboratory to the field, strengthening their competitiveness and sustainability. ARC accelerates the development and commercialization of products, processes and services in the energy, life sciences, agriculture, environment, forestry and manufacturing sectors.

iCORE Inc. (Alberta Informatics Circle of Research Excellence)

iCORE is a not-for-profit corporation owned by the Government of Alberta through the Ministry of Innovation and Science. A board of directors that includes representatives from the business and research communities in Alberta governs the corporation. iCORE is part of the Government of Alberta's strategy to develop the innovation-based economy of the province by attracting world-class ICT researchers and graduate students to Alberta. iCORE invests in people — the highest calibre research scientists capable of working on fundamental and applied problems in informatics. Access to research expertise and high quality students provides Alberta's traditional and emerging industry sectors with the knowledge and human resources needed to compete in the global economy.

Alberta Heritage Foundation for Medical Research (AHFMR)

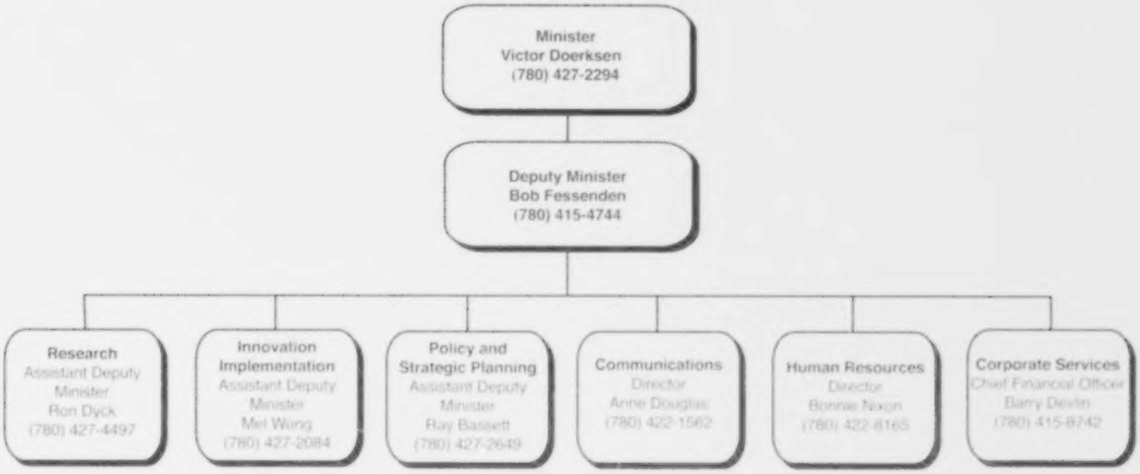
Established by the Government of Alberta in 1980, AHFMR supports biomedical and health research at Alberta universities, affiliated institutions and other medical and technology-related institutions. AHFMR is an independent body at arms-length from, but accountable to, the government, reporting through the Minister of Alberta Innovation and Science.

AHFMR currently provides funding for over 600 researchers and researchers in training at the province's three main universities. AHFMR's commitment is to fund health research based on international standards of excellence, carried out by new and established investigators and researchers in training. Total funding awarded by AHFMR since 1980 is in excess of $850 million.

Alberta Heritage Foundation for Science and Engineering Research (operating as Alberta Ingenuity)

Alberta Ingenuity is the trade name of the Alberta Heritage Foundation for Science and Engineering Research, established by the Government of Alberta in 2000. It supports a balanced, long-term program of science and engineering research based in Alberta, to nurture the discovery of new knowledge and encourage its application to benefit Albertans. Alberta Ingenuity is an independent body at arms-length from, but accountable to, the government, reporting through the Minister of Alberta Innovation and Science.

Department of Innovation and Science (as of March 31, 2006)


Minister
Victor Doerksen
(780) 427-2294
Deputy Minister
Bob Fessenden
(780) 415-4744
Research
Assistant Deputy Minister
Ron Dyck
(780) 427-4497
Innovation Implementation
Assistant Deputy Minister
Mel Wong
(780) 427-2084
Policy and Strategic Planning
Assistant Deputy Minister
Ray Bassett
(780) 427-2649
Communications
Director
Anne Douglas
(780) 422-1562
Human Resources
Director
Bonnie Nixon
(780) 422-8165
Corporate Services
Chief Financial Officer
Barry Devlin
(780) 415-8742

Deputy Minister

The Deputy Minister provides leadership to the department and advises the Minister. The Deputy Minister also serves as the Chief Executive Officer of ASRA.

Research

The Research Division works with the Alberta Science and Research Authority and the five research institutes to coordinate, support and promote research and innovation in the energy, ICT and life sciences (e.g. agriculture, forestry, health) sectors. The Research Division includes the following branches: Energy Research and Development; Life Sciences Research and Development (including forestry and agriculture); and ICT Research and Development. These branches work on cross-divisional initiatives, and with other government departments and agencies to support an integrated approach to research and innovation.

Innovation Implementation

The overarching purpose of the Innovation Implementation Division is to facilitate the creation of successful new companies in key emerging industries. The division focuses its efforts on four primary areas of activity: technology development services; business development services; enhanced access to venture capital; and international partnerships and investment.

Policy and Strategic Planning

The Policy and Strategic Planning Division supports the Ministry in planning and policy development and addresses legislative and regulatory issues. It has two branches: Innovation Policy and Planning, and University Research and Strategic Investments.

The Innovation Policy and Planning Branch co-ordinates strategic and business planning, develops performance measures and provides input to cross-Ministry and federal/provincial/territorial activities for the department. The branch also supports strategic activities of the Alberta Science and Research Authority.

The University Research and Strategic Investment Branch is responsible for the pre- and post-award management of research capacity/equipment grant programs and the Innovation and Service Excellence Program. It also strategically coordinates with other research partners on initiatives and investments to build capacity and research excellence in Alberta.

Communications

The Communications Division provides timely, strategic communications support and advice (planning, consulting and technical guidance) to the Minister, the department and the Alberta Science and Research Authority on key issues, policies and initiatives.

Communications works closely with other provincial departments and other levels of government, media, stakeholders, educational institutions and others to inform Albertans about the importance of innovation. The division coordinates materials and messages that promote Alberta's capabilities and strengths, and informs researchers, industry and others about initiatives that foster innovation. Communications also collaborates with public and private sector partners to encourage youth to consider science and technology careers.

Corporate Services

The Corporate Services Division supports the Ministry in fiscal planning, financial reporting and general corporate services while strategically applying information management practices and information technology to the current and emerging business needs of the department. Corporate Services includes the Finance Division and the Departmental Chief Information Office (DCIO).

The Finance Division provides strategic services in the areas of fiscal planning, financial reporting and general corporate services to the Ministry, ASRA, various committees, ARC and iCORE. The goal of the division is to work with business areas to increase the effectiveness and efficiency of financial management, reporting and accountability within the Ministry.

The DCIO works to deliver innovative solutions to optimize program delivery, improve the use and management of information, and support knowledge sharing and collaborative work.

Human Resources

The Human Resources Division provides comprehensive delivery of strategic human resources, generalist (operational) human resources and organizational development to the Ministry. Services include consultation with business areas and development of a human resources plan that is consistent with the Alberta Public Service human resources plan and focused on:

- Building capacity through leadership, and learning and development.
- Attracting and retaining quality and skilled personnel.
- Encouraging high performance and employee engagement.
- Maintaining employee and organizational wellness.
- Implementing effective and appropriate processes and systems.
- Keeping pace with best practices in people management and leadership.

AUDITOR
GENERAL
Alberta

To the Members of the Legislative Assembly

Management is responsible for the integrity and objectivity of the performance results included in the *Ministry of Innovation and Science's 2005-06 Annual Report*. My responsibility is to carry out the following specified auditing procedures on performance measures in the annual report. I verified:

Completeness

1. Performance measures and targets matched those included in Budget 2005. Actual results are presented for all performance measures.

Reliability

2. Information in reports from external organizations, such as Statistics Canada, matched information that the Ministry used to calculate the actual results.

3. Information in reports that originated in the Ministry matched information that the Ministry used to calculate the actual results. In addition, I tested the processes the Ministry used to compile the results (see exceptions below noting errors and unexplained differences).

Comparability and Understandability

4. Actual results are presented clearly and consistently with the stated methodology and are presented on the same basis as targets and prior years' information.

As a result of applying the above procedures, I found errors and unexplained differences when I tested the compilation of data in the Ministry's *Strategic Investment Research Database* used to report results for these six measures:

Ratio of private and other public investments:
- *in energy research, to Government of Alberta (GOA) investments in energy research*
- *in information and communications technology (ICT) research, to GOA investments in ICT research*
- *in life sciences research, to GOA investments in life sciences research*

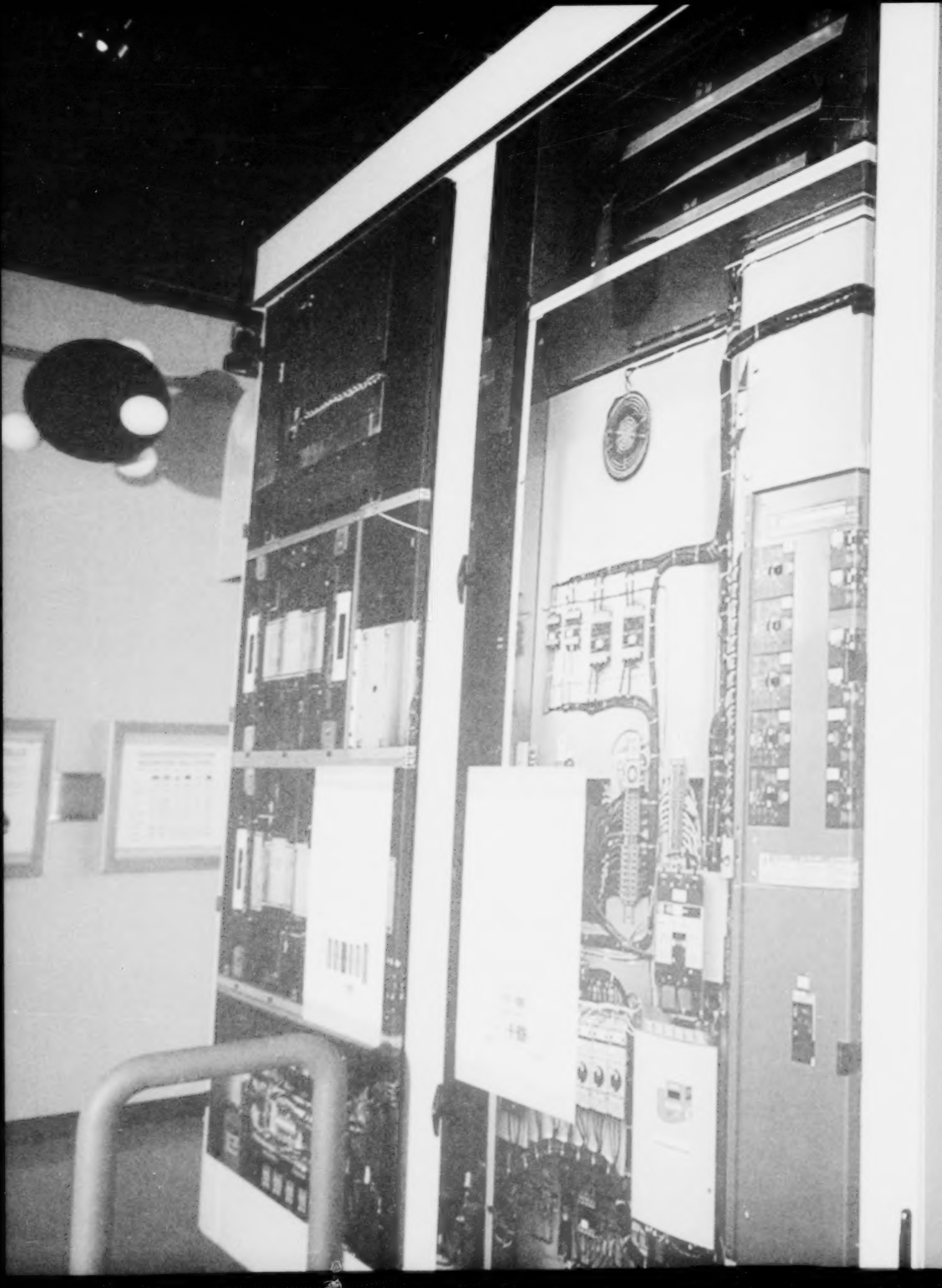
Non-GOA and GOA investment in:
- *energy research*
- *ICT research*
- *life sciences research*

> Management explains in the Discussion of Results under Goal 3 the reasons for the errors and unexplained differences in these six measures. During the year, management improved controls over the compilation of the data for these measures and is now implementing a new system that they believe will further improve the quality of the data.

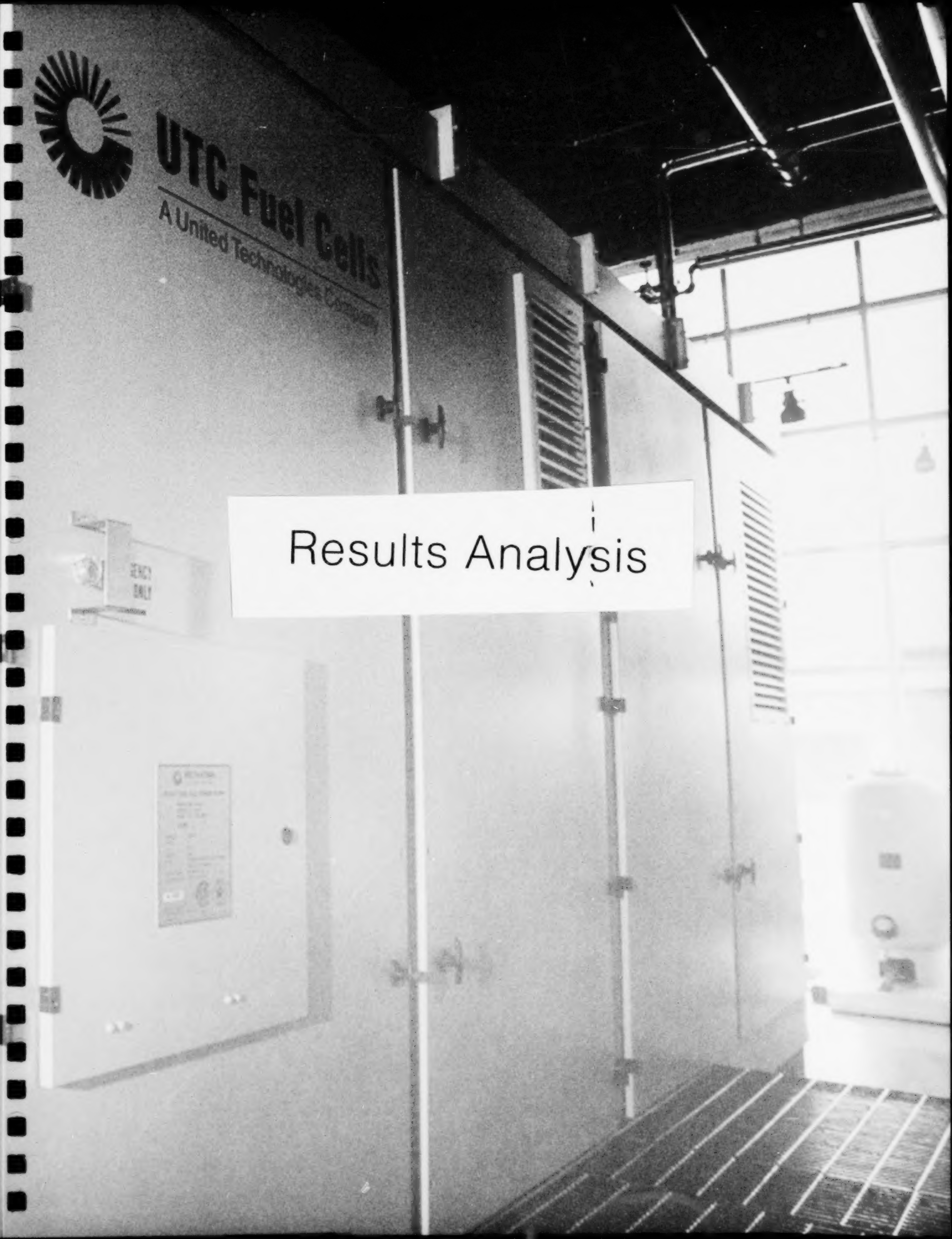
As my examination was limited to procedures 1 to 4 above, I do not express an opinion on whether the set of measures is relevant and sufficient to assess the performance of the Ministry in achieving its goals.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
August 18, 2006



Results Analysis


UTC Fuel Cells
A United Technologies Company

Ministry of Innovation and Science
Net Operating Results

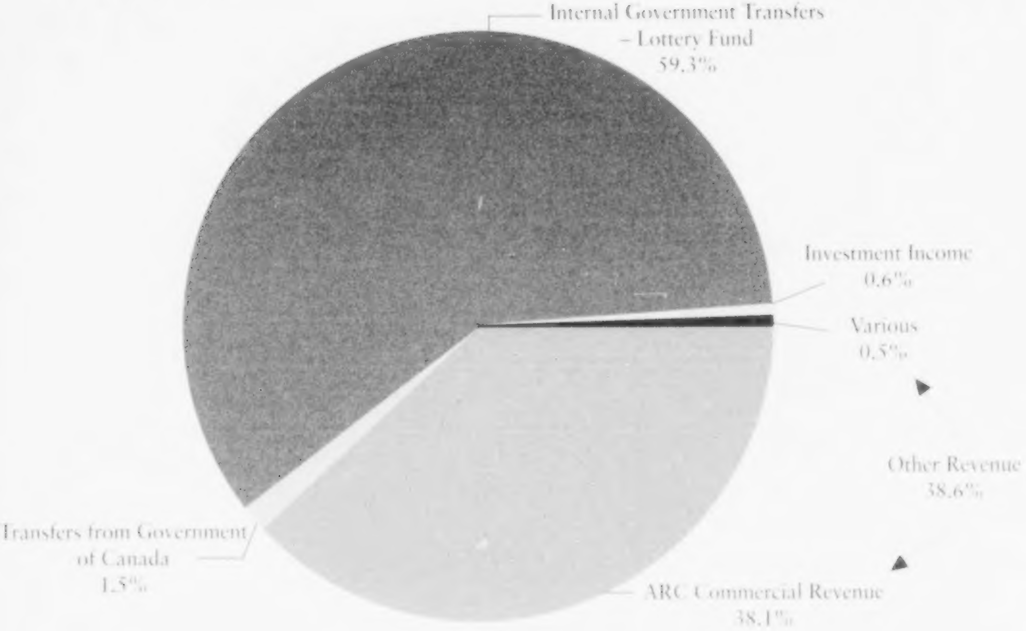
		(in thousands)	
	2005-06 Budget	2005-06 Actual	2004-05 Actual
REVENUE			
Internal Government Transfers - Lottery Fund	$ 60,238	$ 60,238	$ 69,285
Transfers from Government of Canada	2,442	1,485	374
Investment Income	500	649	956
Other Revenue	47,450	39,223	34,162
	110,630	101,595	104,777
EXPENSES			
Innovation	178,301	194,593	187,799
Ministry Support Services	5,146	4,468	4,279
Valuation Adjustment - Provision for Vacation Pay	-	35	99
	183,447	199,096	192,177
OTHER EXPENSES			
Writedown of Tangible Capital Assets	-	315	-
Gain on Disposal of Tangible Capital Assets	-	(360)	(70)
	-	(45)	(70)
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	**$ (72,817)**	**$ (97,456)**	**$ (87,330)**
OTHER			
Operating Loss from Discontinued Operations	-	-	554
Writedown of Tangible Capital Assets	-	-	4,591
Gain on Disposal of Tangible Capital Assets	-	-	(25)
	-	-	5,120
NET OPERATING RESULTS	**$ (72,817)**	**$ (97,456)**	**$ (92,450)**
EQUIPMENT AND INVENTORY PURCHASES / CAPITAL INVESTMENT	**$ 4,302**	**$ 8,078**	**$ 4,924**

Financial results of the Ministry of Innovation and Science for the year ended March 31, 2006 include the activities of the Department of Innovation and Science, ARC and iCORE. More detailed information can be found in the Ministry's financial statements.

Revenues

Sources of Revenue

2005–06 Actual Revenue: $101.6 million



Actual Revenue for the Ministry totalled $101.6 million for 2005–06, including:

- $60.2 million through an internal government transfer from the Lottery Fund for research and development initiatives.
- $1.5 million from the Government of Canada for research and development initiatives.
- $0.6 million in investment income due to interest earned on the bank accounts of ARC and iCORE.
- $39.2 million in other revenue as follows:
    - o $38.7 million in contract revenue for ARC from the provision of research work.
    - o $0.5 million in other income (e.g. prior year refunds).

Comparison of 2005–06 Actual to Budget

Revenues were $9.0 million lower than budgeted primarily due to lower than anticipated ARC contract revenues.

Comparison of 2005–06 Actual to 2004–05 Actual

Revenues decreased by $3.2 million over 2004–05, primarily due to a $9.0 million decrease in lottery funding. A $5.2 million increase in ARC contract research revenue and a $0.6 million increase in miscellaneous revenues partially offset this decrease.

Expenses

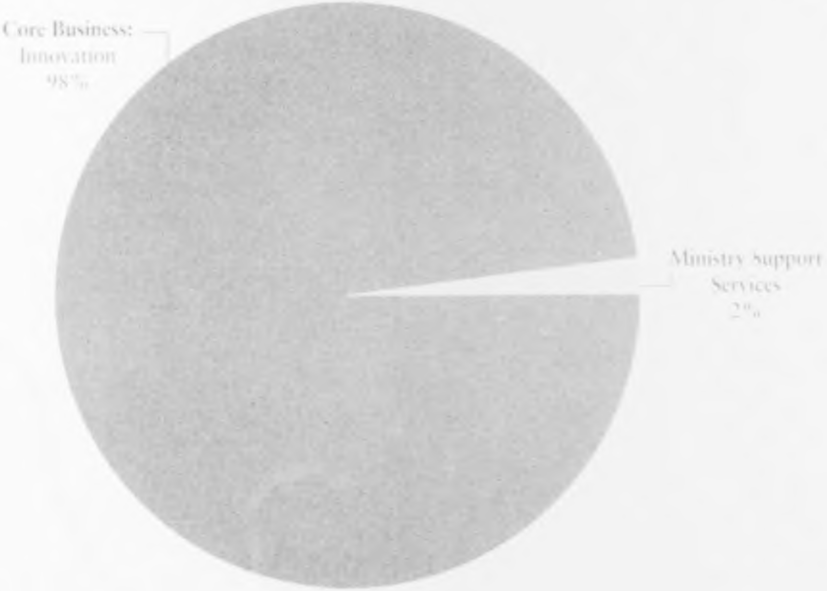
Expense by Function

	(in thousands)		
	2005–06 Budget	2005–06 Actuals	2004–05 Actuals
Agriculture, Resource Management and Economic Development	$ 183,447	$ 199,096	$ 192,177

The consolidated budgets and financial statements of the Government of Alberta classify government expenses by function. The purpose of this classification is to provide a basis for sound reporting of expense by function according to national standards and for international reporting purposes. Expense by function allocations are used for inter-provincial comparisons and for determining federal funding eligibility. An expense function is defined as a classification that identifies the principal purpose for which an expense is incurred rather than the activity involved. The Ministry of Innovation and Science expenses are classified under the function agriculture, resource management and economic development.

Expenses by Core Business

Total Expenses: $199.1 million



Expenses for the Ministry totalled $199.1 million for 2005–06, including:

- $194.6 million related to Innovation:
  - $147.4 million for grant programs, including:
    - $61.4 million for ARC.
    - $32.0 million for the Alberta Science and Research Investment Program as well as Science Awareness.
    - $15.4 million for life sciences.
    - $14.3 million for energy research.
    - $11.3 million for iCORE to build capability in ICT research.
    - $4.9 million to facilitate technology commercialization.
    - $4.3 million to facilitate emerging opportunities.
    - $3.8 million to facilitate information and communications technology.
  - $30.0 million, a one-time budget allocation to extend AVAC Ltd. services to the key growth sectors of ICT, life sciences and industrial technology.
  - $5.1 million for the Innovation and Service Excellence Program to encourage innovation within the Government of Alberta.
  - $12.1 million for operations and policy implementation.
- $4.5 million for Ministry Support Services.

Comparison of 2005–06 Actual to Budget

Expenses were $15.6 million higher than budgeted primarily due to the $30.0 million increase in Technology Commercialization Initiatives resulting from the approval of a one-time supplementary estimate in 2005–06 to fund the extension of AVAC Ltd. services. This increase was partially offset by the following decreases:

- $3.8 million transfer from Operating to Equipment and Inventory Purchases (EIP) ($1.1 million for the Department and $2.7 million for ARC).
- $10.0 million decrease related to lower than anticipated contract research activity at ARC.

Comparison of 2005–06 Actual to 2004–05 Actual

The $6.9 million increase is primarily due to:

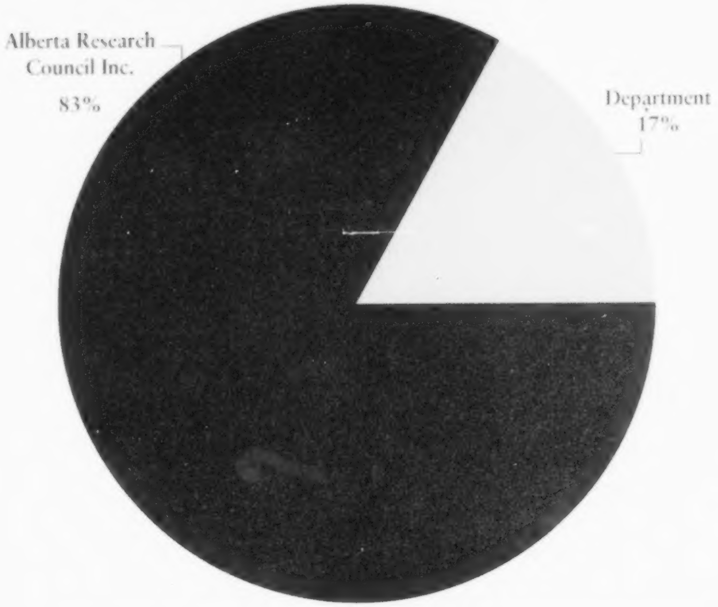
- a $30.0 million increase in Technology Commercialization Initiatives resulting from the approval of a one-time supplementary estimate in 2005–06 to fund the extension of AVAC Ltd. services.
- $3.7 million increase in contract research activity for ARC relative to prior year.
- $11.2 million base budget increase in 2005–06 compared to 2004–05 to fund research initiatives.

The $38.0 million one-time supplementary estimate in 2004–05 to fund prion science research partially offsets the above increases.

Equipment and Inventory Purchases (EIP)/Capital Investment

EIP & Capital Investment by Entity

Total EIP & Capital: $8.1 million



(in thousands)

		2005–06 Budget		2005–06 Actual		2004–05 Actual
Alberta Research Council Inc.	$	$4,002	$	6,684	$	4,738
Department of Innovation and Science		300		1,394		186
	$	4,302	$	8,078	$	4,924

Comparison of 2005–06 Actual to 2005–06 Budget and 2004–05 Actual

Spending was $3.8 million higher than budgeted, primarily due to the construction of a new Agriculture Fibre Processing Facility at ARC's Edmonton location and expenditures in the Innovation and Service Excellence Program.

What we accomplished in 2005–06 Performance Measures Results[1]

Core Business: Innovation

Core Business Operating Expense: $194.6 million
Core Business Equipment and Inventory Purchases: $7.7 million

Goal 1: Accelerate Innovation

Goal 1 Operating Expense: $84.9 million
Equipment and Inventory Purchases: $6.3 million

Performance Measure 1.a: Percentage of Government of Alberta expense used to support innovation.

Performance Measure	Actual 2003–04	Actual 2004–05	Target 2005–06
1.a Percentage of GOA expense used to support innovation	1.54%	1.60%	Increasing up to 5%, as affordable, by 2015

Sources: Statistics Canada, Government of Alberta Annual Reports

Discussion of Results:
Investments by the Government of Alberta (GOA) to support innovation totalled $389.9 million, 1.6 per cent of total expenditures. The result demonstrates the government's commitment to innovation through growth of actual investment in innovation. Actual expenditures on innovation-supporting activities are increasing.

This is a new measure introduced in the 2005–08 business plan. Investments in research, development and innovation help achieve the objectives of the provincial government's policy of accelerating innovation in Alberta. The measure is a leading indicator that tracks cross-government effort related to an important and necessary input.

This measure is continued in the 2006–09 business plan.

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[1] The methodology section on how these performance measures were derived is located after "Key Measures Related to Corporate Activities".

Performance Measure 1.b: Number of Albertans employed in knowledge-intensive (high-tech) companies.

Performance Measure	Actual 2004	**Actual 2005**	Target 2005–06
1.b Number of Albertans employed in knowledge-intensive (high-tech) companies	111,100	**122,900**	113,300

Sources: Economic Development, Alberta Business Monitor.

Discussion of Results:
There were 122,900 people employed in 2005 in Alberta's knowledge-intensive (high-tech) sector, which is 8.5 per cent higher than the target of 113,300. Most of the increase occurred in two sectors: Computer Systems Design & Related Services and Architectural, Engineering & Related Services.

Demand for knowledge-based workers is influenced by the state of the energy sector in Alberta, the state of the global high-tech industry such as emerging developments in Asia (e.g., China and India) and the overall economic performance. The targets for this measure were based on an expected three per cent rate of growth. The 10.6 per cent growth over the prior year can be considered a significant and remarkable recovery.

In the 2005–08 business plan, this measure was changed from "number of Albertans employed in the ICT sector" to "number of Albertans employed in knowledge-intensive companies," a broadening beyond the prior focus on ICT. This measure uses the same data source, the North American Industry Classification System (NAICS) codes; however, it includes a wider range of codes. The measure went through an important change as Statistics Canada implemented the revised and updated NAICS (2002) codes for the business categories.

This measure is continued in the 2006–09 business plan.

Performance Measure 1.c: Albertans employed in knowledge-intensive (high-tech) companies as a percentage of Albertans employed in all companies.

Performance Measure	Actual 2004	**Actual 2005**	Target 2005–06
1.c Albertans employed in knowledge-intensive (high-tech) companies as a percentage of Albertan employed in all companies	6.3%	**6.9%**	6.4%

Sources: Economic Development, Alberta Business Monitor.

Discussion of Results:
The result of 6.9 per cent of Albertans employed in knowledge-intensive (high-tech) companies as a percentage of Albertans employed in all companies exceeded the target of 6.4 per cent. The main factor causing the result to exceed the target is the strength of Alberta's energy sector, which created demand for services to support its remarkable growth. The most growth within the knowledge-intensive sector was in Computer Systems Design & Related Services and Architectural, Engineering & Related Services.

This is a new measure introduced in the 2005–08 business plan. It complements the measure "number of Albertans employed in knowledge-intensive (high-tech) companies." This measure presents an indication of the diversification of Alberta's economy and is based on the updated NAICS (2002) codes recently adopted by Statistics Canada to track business statistics and uses a wider range of NAICS codes to define the sector.

This measure is continued in the 2006–09 business plan.

Performance Measure 1.d: Percentage of Canadian venture capital invested in Alberta.

Performance Measure	Actual 2004	**Actual 2005**	Target 2005–06
1.d Percentage of Canadian venture capital invested in Alberta	1.6%	**2.9%**	4.5%

Source: Thompson MacDonald Ltd.
NOTE: The source data from Thompson MacDonald Ltd. is dynamic, with additional data relevant to a period added on a continual basis as it becomes available.

Discussion of Results:
In 2005, Alberta knowledge-based companies attracted 2.9 per cent of the total venture capital invested in Canada, an improvement over the 1.6 per cent in 2004 but below the target value of 4.5 per cent. Alberta companies attracted significantly more venture capital in 2005 ($42.8 million) compared to 2004 ($22.6 million).

The target was not reached because Alberta's venture capital market is still developing with much of the capital allocated to the energy sector. Energy investments are not captured in the Thomson MacDonald database as they are not defined as venture capital. The attractiveness of other investment opportunities (such as energy investments) and fiscal policy in other Canadian provinces affect venture capital investment in Alberta.

This measure assesses the impact of the Ministry of Innovation and Science activities aimed at attracting and facilitating access to venture capital in the province. Venture capital is often cited as an important factor contributing to innovation and knowledge industry growth in Alberta. Therefore, this measure provides an indication of the capacity and capability needed to support an innovative and globally competitive economy.

This measure is continued in the 2006–09 business plan.

Performance Measure 1.e: Alberta business expenditures on research and development (in millions).

Performance Measure	Actual 2002	Actual 2003	Target 2005–06
1.e Alberta business expenditures on research and development (in millions)	$811*	$782	$770

Sources: Statistics Canada, Service Bulletin Science Statistics, Vol. 29, No. 5, Table 7

*Actual (2002) is a restated value from Statistics Canada in a December 2005 publication

Discussion of Results:

The result of $782 million in business funding of research and development slightly exceeded the target of $770 million for the reporting period. The $811 million (for 2002) presented in the annual report is the revised value released by Statistics Canada in December 2005.

This is a new measure introduced in the 2005–08 business plan. It measures an input to the innovation process. Investments in research result in innovative ideas that can lead to products and processes that, if commercialized in Alberta, have the potential to yield significant economic and social benefits for the province. Business invests in research with the expectation of economic benefit by using science and technology, as well as other sources of innovation, to meet or create market needs.

This measure is continued in the 2006–09 business plan.

Goal 2: Build research capacity in areas of strategic priority

Goal 2 Operating Expense: $33.8 million

Performance Measure 2.a: Total sponsored research revenue attracted by Alberta universities (in millions).

Performance Measure	Actual 2003–04	Actual 2004–05	Target 2005–06
2.a Total sponsored research revenue attracted by Alberta universities (in millions)	$584*	$651**	$606

Source: Alberta Innovation and Science, University Research and Strategic Investments Branch

* 2003-04 *Research Funding at Alberta Universities* Report, December 2004

** 2004-05 *Research Funding at Alberta Universities* Report, January 2006

Discussion of Results:

Sponsored research funding increased significantly from $584 million in 2003–04 to $651 million in 2004–05 (the most recent data available), exceeding the 2005–06 target of $606 million.

The increase is largely due to increased Government of Alberta contributions to capital projects at the University of Alberta and the University of Calgary exceeding $68 million. Sponsored research funding has nearly doubled in the last 5 years, reflecting Alberta's success in garnering research awards and new investments in research capital initiatives aimed at increasing the research capacity and capability of Alberta's universities.

Excellence in research attracts sponsored research revenue in a highly competitive environment. The ability of universities to attract research funding indicates the quality of the universities' faculty and research programs and the capability and capacity of Alberta's research system. Research conducted in Alberta's universities contributes to innovative discoveries that have the potential for economic and societal benefits and provides an effective training ground for a skilled workforce. Strengthening Alberta's innovation capacity is critical to ensuring long-term economic competitiveness.

The key external factors that impact this measure include:

- Business activities and growth in strategic industry sectors and the overall state of the economy. This strongly impacts the levels of industry-sponsored research.
- Endowed funds invested in research such as those administered by AHFMR and Alberta Ingenuity. These depend on investment revenues that are linked to performance of the financial markets. The increase of both endowment funds announced in 2005–06 is expected to enhance sponsored research revenue by 2008 – 09.
- Availability of federal research funds. This has a significant impact on total sponsored research as provincial research funding is used to attract additional federal funds to support Alberta priorities.

This measure is continued in the 2006–09 business plan.

Performance Measure 2.b: Total sponsored research revenue attracted by Alberta technical institutes and colleges (in millions).

Performance Measure	Actual 2003–04	Actual 2004–05	Target 2005–06
2.b Total sponsored research revenue attracted by Alberta's colleges and technical institutes (in millions)	$1.2	$1.3	$1.2

Source: Alberta Advanced Education

Discussion of Results:

The result of $1.3 million exceeded the target of $1.2 million. This new measure, introduced in 2005–08, reflects the early growth and success of colleges and technical institutes in taking on this new mandate of applied research. Data is provided annually. Alberta colleges and technical institutes that contributed to this measure in 2005–06 were the Alberta College of Art and Design, Lethbridge Community College and Olds College. There is a one-year lag in the data, as the year-end for the colleges and technical institutes is June 30. For this report, the most recent data available is for 2004–05.

The mandate to conduct applied research was given to Alberta's colleges and technical institutes in 2005 through the *Post Secondary Learning Act*. As such, Alberta's colleges and technical institutes are currently developing their applied research programs. Their performance in garnering sponsored research dollars is consistent with previous years and is appropriate for an initiative in its early stages.

The measure of sponsored research revenue garnered by colleges and technical institutes demonstrates the extent to which the institutes are developing their research and development capacity and productivity. The ability of colleges and technical institutes to attract research and development funding from the private sector and government agencies is an indicator of the quality of the institution's faculty and the ability of the institution to solve issues of relevance to industry. Strengthening Alberta's capacity to capitalize on the benefits of research is critical to ensuring long-term economic competitiveness.

Several key external factors that affect results:

- Business activities and growth in strategic industry sectors.
- Development of applied research challenges requiring college and technical institute expertise.
- Overall state of the economy.
- Availability of federal research funds for colleges and technical institutes.

The measure is continued in the 2006–09 business plan.

Goal 3: Accelerate innovation in the energy sector

Goal 3 Operating Expense: $37.7 million
Equipment and Inventory Purchases: $0.9 million

Performance Measure 3.a: Ratio of private and other public investments in energy research to Government of Alberta investments in energy research.

Performance Measure	Actual 2004–05	Actual 2005–06	Target 2005–06
3.a Ratio of private and other public investments in energy research to GOA investments in energy research	2.82	1.71	2.50

Source: Innovation and Science, Strategic Investment Research Database

Discussion of Results:
In 2005–06, collaborating partners invested $1.71 in energy research for every dollar invested by the Government of Alberta. The result for 2005–06 of 1.71 is lower than the target of 2.50. This is attributable to factors such as a more rigorous review of investments by all parties, the end of some high-leverage projects and some new strategic investments that had lower leverage.

The 2004–05 actual of 2.82 reported here differs from the Actual for 2004–05 of 3.34 reported in the Ministry's 2004–05 Annual Report because the basis for calculating the ratio changed from "Innovation and Science" investments in the denominator to "Government of Alberta" investments.

This measure goes beyond reporting on Government of Alberta investments and seeks to capture and report on the multi-year investments by all collaborating partners in this strategically important area of research and innovation. The procedures to acquire the data from multiple research funding partners are being developed and improved. This measure is a combined result for investments by AERI and the University Research and Strategic Investments in research equipment and other operating needs. This measure is influenced by economic factors that affect the amount of industry investment in energy research.

This measure is referenced in the Report of the Auditor General on the Results of Applying Specified Auditing Procedures. The auditor's report indicates that this measure is one of six measures from the SIR database that included errors and unexplained differences. The other measures are referred to in this annual report as 3b, 4b, 4c, 5a, and 5b. Over the last year, the department has actively taken steps to remedy the errors. This has been done by updating its Ratio Guidelines and improving its internal quality controls to minimize errors in data reporting and methodology. The department is also in the process of implementing a new electronic grant management system which will improve data management processes.

The department has been collecting data from multiple sources for other purposes for several years. Not all of this data was originally designed to be used for performance measurement. Therefore when applying it toward performance measurement, inconsistencies may be encountered given the large number of research and grant agreements administered by the department. Over the last year, the department was able to reduce the number of inconsistencies.

This measure is continued in the 2006–09 business plan.

Performance Measure 3.b:

Non-GOA investment in energy research:

- Non-GOA investment through existing programs (in millions)
- Non-GOA investment through EnergyINet (in millions)

GOA investment in energy research:

- GOA investment through existing programs (in millions)
- GOA investment through EnergyINet (in millions)

Performance Measure(s)	Actual 2004–05	**Actual 2005–06**	Target 2005–06
3.b Non-GOA investment in energy research (in millions):			
• Non-GOA investment through existing programs	$50.0	**$29.4**	$27.0
• Non-GOA investment through EnergyINet	$0.5	**$0.6**	$8.2
	$50.5	**$30.0**	$35.2
GOA investment in energy research (in millions):			
• GOA investment through existing programs	$14.9	**$12.5**	$13.8
• GOA investment through EnergyINet	$4.6	**$2.6**	$4.2
	$19.5	**$15.1**	$18.0

Source: Innovation and Science, Strategic Investment Research Database

Discussion of Results:
The results for 2005–06 non-government and government investment in energy research were below target. This is due to several factors: in-kind contributions were not included and several projects were concluded in 2004–05. The investments through EnergyINet were less than expected due to the nature of projects led by EnergyINet.

This is a new measure that complements the ratio measure by presenting investments for the fiscal year. This measure is based on the fiscal year and is not directly comparable to the multi-year ratio measure.

This measure is continued in the 2006–09 business plan but is slightly changed with the component related to EnergyINet discontinued. EnergyINet is now an independent not-for-profit corporation that is not within the control of government.

Performance Measure 3.c: Growth of EnergyINet — number of participating organizations

Performance Measure	Last Actual 2004–05	Result 2005–06	Target 2005–06
3.c Growth of EnergyINet			
• Number of participating organizations	0	19	10

Source: Innovation and Science, Alberta Energy Research Institute, and EnergyINet

Discussion of Results:
The growth of EnergyINet to include 19 organizations exceeded the target of 10 organizations in 2005–06. This was due to the high interest in this initiative shown by the private sector, other Alberta government departments and other levels of governments across Canada. Additionally, some companies not in the energy sector also joined.

EnergyINet, incorporated in August 2005 as a private not-for-profit national entity, was developed to drive stronger collaboration in energy innovation across the country. The growth of EnergyINet was a measure added to monitor progress on implementing Alberta's energy innovation strategy. Membership in EnergyINet shows support for goals and programs that are aligned with Alberta's energy innovation strategy. A number of the strategies for 2005–08 were based on the development and success of EnergyINet as a primary vehicle for collaboration among government, industry and researchers on a national and international basis.

This measure is not continued in the 2006–09 business plan as EnergyINet became a private entity when it incorporated in August 2005.

Goal 4: Accelerate innovation in the information and communications technology sector

Goal 4 Operating Expense: $15.1 million

Performance Measure 4.a: Total number of ICT researchers and graduate students attracted to Alberta universities by iCORE Inc.

Performance Measure	Actual 2004–05	**Actual 2005–06**	Target 2005–06
4.a iCORE awards (totals include "new")			
New research chairs, industry chairs and professors	4	**3**	4
Total active research chairs, industry chairs and professors	21	**24**	23
New graduate student scholarships	100	**105**	80
Total active graduate student scholarships	254	**263**	200

Source: iCORE Inc.

Discussion of Results:
The 2005–06 results for three components of the measure met or exceeded the targets. One component, new research chair awards, was one less than the target of four. This is due to the long lead time in recruiting high caliber research chairs. Qualified candidates may not be available within a fiscal year. iCORE surpassed the target for 23 active chairs by one, as chair renewals for this past year were higher than expected. On average, iCORE expects to renew 75 per cent of active chairs, but this year, 100 per cent of awards were renewed.

The 2004–05 last actual for Active Graduate Student Scholarships was re-stated from the 2004–05 last actual reported in the 2004–05 Annual Report due to improved quality assurance measures for performing counting and a new definition for active graduate student scholarships.

There were 105 new awards to graduate students in 2005–06 for a total of 263 active graduate students attracted to and retained in Alberta by iCORE support. The targets were for 80 new graduate awards and 200 active ones. iCORE exceeded expectations to attract the best graduate students for the scholarship program, in part, due to an extraordinary $2.0 million in funding provided by the Ministry of Advanced Education.

iCORE's primary function is the attraction, retention, education and support of exceptional ICT researchers. They have a direct effect on the amount of research funding and the number and quality of graduate students attracted to the province. Increasing the number of world-class researchers and graduate students in Alberta is crucial to Alberta's success in fostering excellence in ICT research and technology development.

Several external factors that affect results:

- Research chairs of the desired calibre, their research teams and their families must be willing to move to Alberta in the face of world-wide competition for their skills.
- Few large ICT companies in the province can be the required funding partner for an Industry Research Chair.
- Universities, the Natural Sciences and Engineering Research Council and/or Alberta Ingenuity review graduate student qualifications first. The reasons why computer science and electrical engineering student numbers rise or fall are beyond the Ministry's control.

This measure is continued in the 2006–09 business plan.

Performance Measure 4.b: Ratio of private and other public investments in ICT research to Government of Alberta investments in ICT research.

Performance Measure	Actual 2004–05	**Actual 2005–06**	Target 2005–06
4.b Ratio of private and other public investments in ICT research to GOA investments in ICT research*	1.81	**1.94**	1.95

Sources: iCORE Inc. and Strategic Investment Research Database

*The ratio is based on investments/commitments over the life of the research agreement, rather than expenditures in a single year, as multi-year agreements often have different payment schedules.

Discussion of Results:
In 2005–06, collaborating partners invested $1.94 in ICT research for every dollar invested by the Government of Alberta. The actual for 2005–06 of 1.94 was higher than the 2004–05 actual of 1.81 but below the target of 1.95. This is attributable to several factors including a more rigorous review of investments by all parties, the end of some high leverage projects and some new strategic investments.

The 2004–05 actual of 1.81 reported here differs from the actual for 2004–05 of 1.89 reported in the Ministry's *2004–05 Annual Report*, because the basis for calculating the ratio changed from "Innovation and Science" investments in the denominator to "Government of Alberta" investments.

This measure goes beyond reporting on Government of Alberta investments and seeks to capture and report on the multi-year investments by all collaborating partners in this strategically important area of research and innovation. The procedures to acquire the data from multiple research funding partners are being developed and improved. This measure is a combined result for investments by iCORE, Innovation Implementation and the University Research and Strategic Investments branch in research equipment and other operating needs.

This measure is continued in the 2006–09 business plan.

Performance Measure 4.c: Non-GOA investment in ICT research, and GOA investment in ICT research (in millions)

Performance Measure	Actual 2004–05	**Actual 2005–06**	Target 2005–06
4.c Investment in ICT research (in millions)			
• Non-GOA investment in ICT research	$52.8	**$60.2**	$47.0
• GOA investments in ICT research	$23.7	**$23.6**	$24.1

Sources: iCORE Inc. and Strategic Investment Research Database

Discussion of Results:
In 2005–06, collaborating partners invested $60.2 million in ICT research and the Government of Alberta invested $23.6 million. The increase in partner funding can be attributed, in part, to the gradual recovery of the ICT industry and aggressive efforts by the Ministry to attract corporate partners to participate in research in the province. Significant investment in emerging industries, especially nanotechnology, also contributed to the increased non-Government of Alberta funding.

This new measure is based on the fiscal year and is not directly comparable to the multi-year ratio measure. This measure is a combined result for investments by iCORE, Innovation Implementation and the University Research and Strategic Investments branch in research equipment and other operating needs. Investment by others is evidence that they recognize the excellence of Alberta's people, ideas, research capacity and capability.

External factors that affect the province's ability to attract additional research funding include:

- Importance that other potential partners see in funding university-based research.
- Current economic climate, and political pressures.
- Private sector partners, typically large ICT companies, have the resources to fund research, and they may choose to conduct research in-house or sometimes partner with a university.

This measure is continued in the 2006–09 business plan.

Goal 5: Accelerate innovation in the life sciences sector

Goal 5 Operating Expense: $23.1 million

Equipment and Inventory Purchases: $0.5 million

Performance Measure 5.a: Ratio of private and other public investments in life sciences research to Government of Alberta investments in life sciences research.

Performance Measure	Actual 2004–05	**Actual 2005–06**	Target 2005–06
5.a Ratio of private and other public investments in life sciences research to GOA investments in life sciences research	1.64	**1.27**	2.27

Source: SIR Database, Innovation and Science

Discussion of Results:
In 2005–06, collaborating partners invested $1.27 in life sciences research for every dollar invested by the Government of Alberta. The 2005–06 actual of 1.27 was below the target of 2.27 and below the 2004–05 actual of 1.64. This is attributable to several factors including a more rigorous review of investments by all parties, the end of some high leverage projects and some new strategic investments.

The 2004–05 actual of 1.64 reported here differs from the actual for 2004–05 of 3.14 reported in the Ministry's *2004–05 Annual Report*, because the basis for calculating the ratio changed from "Innovation and Science" investments in the denominator to "Government of Alberta" investments.

This measure goes beyond reporting on Government of Alberta investments and seeks to capture and report on the multi-year investments by all collaborating partners in this strategically important area of research and innovation. The procedures to acquire the data from multiple research funding partners are being developed and improved. This measure is a combined result for investments by the life sciences branch (ALSI, AARI, AFRI) and the University Research and Strategic Investments branch that funds research equipment and other operating needs.

Several factors influenced the outcomes:

- Priorities identified for life sciences by the ALSI, AARI and AFRI determined investment allocations.
- ASRIP competition periods affected when agreements were reached and expenditures were made.
- Large-scale research initiatives will conclude in the next few years.
- Changes in federal research funding programs and in the provincial government budget for the Ministry of Innovation and Science and other Alberta research agencies affected funds available for investment.

This measure is continued in the 2006–09 business plan.

Performance Measure 5.b: Non-GOA investment in life sciences research, and GOA investment in life sciences research (in millions)

Performance Measure(s)	Actual 2004–05	**Actual 2005–06**	Target 2005–06
5.b Investment in life sciences research (in millions)			
Non-GOA investment in life sciences research	$86.4	**$64.9**	$51.3
GOA investment in life sciences research	$69.0	**$35.2**	$22.6

Source: SIR Database, Innovation and Science

Discussion of Results:
The results for 2005–06 exceeded the targets for both components of this measure. The Government of Alberta investment in 2004–05 was higher than in prior years because of the investment of $38.0 million in prion research announced in March 2005.

This new measure is based on fiscal year expenditures for grants.

Several factors influenced the outcomes:

- Priorities identified for life sciences by ALSI, AARI and AFRI determined investment allocations.
- ASRIP competition periods affected when agreements were reached and expenditures were made.
- Large-scale research initiatives will conclude in the next few years.
- Changes in federal research funding programs and in the provincial government budget for the Ministry of Innovation and Science and other Alberta research agencies affected funds available for investment.

This measure is continued in the 2006–09 business plan.

Performance Measures Related to Key Corporate Activities

Measure: Innovation and Science employee satisfaction and understanding of contribution.

	Actual 2004–05	Actual 2005–06	Target 2005–06
Percentage of employees who know and understand how their work contributes to the achievement of their department business plan	79%	78%	93%
Percentage of employees who are very/somewhat satisfied with their employment at Innovation and Science/Government of Alberta	88%	82%	92%
Percentage of employees who agree that Innovation and Science provides the support they need to acquire or develop knowledge and skills in their current job	80%	78%	82%
Percentage of employees indicating that their organization provides expected outcomes for their work	74%	67%	80%
Percentage of employees indicating that their organization helps them know and understand how well they are performing	79%	64%	82%

Source: Government of Alberta 2005 Corporate Employee Survey

Discussion of Results:

The 2005–06 results for the five indicators did not meet their targets for the year. The results ranged from 4 per cent to 18 per cent below the target. The department continues to take active steps to improve the achievement of these targets. These steps include the initiation of two action teams, employee engagement and learning and development, as well as an increase in the number of divisional and full-staff meetings to share information about department-wide activities. The department's executive also committed to timely follow-up on the teams' recommendations regarding employee recognition, learning and development, and flexible work arrangements.

The department's management will undertake one-on-one meetings with all staff to ensure all employees understand how their work contributes to achieving the department's business plan.

The five indicators related to key corporate activities reflected the department's desire to achieve the objectives in the Government of Alberta's *Corporate Human Resource Development Strategy*. This provided insight into key determinants of employee satisfaction that may impact the department's ability to engage its employees and hence, their contributions to organizational productivity. This measure is continued in the 2006–09 business plan.

Goal 1

Measure 1.a: Percentage of Government of Alberta expense used to support innovation.

Innovation is comprised of science and technology as well as other sources of new ideas that lead to new and improved products and services. Science and technology is also comprised of research and development and related science activities, which are reported annually by all Government of Alberta departments in a Statistics Canada report. The Ministry of Innovation and Science introduced the Innovation and Service Excellence Program in 2004, the first year in which this expense appears. Two line items are used from financial statements in Alberta Economic Development's annual reports. The Innovative Energy Technology Program in Alberta Energy supports the adoption and use of innovative energy technologies. It provides royalty adjustments to a number of specific pilot and demonstration projects that use innovative technologies to increase recoveries from existing reserves and encourage responsible development of oil, natural gas and in-situ oil sands reserves.

For the purposes of this measure, the royalty adjustment is treated equivalent to, and reported as if it were, a Government of Alberta expense. The actual total expense for the provincial government is the line item total expense found in the consolidated statement of operations published in the Government of Alberta annual report and also presented in the executive summary. The most recent data is used, hence the total expense data for fiscal year 2001–02 is the re-stated value from the 2002–03 annual report, and the total expense data for fiscal year 2002–03 is the re-stated value from 2003–04 annual report.

	2000–01	2001–02	2002–03	2003–04	2004–05
Innovation as % GOA spending	1.50%	1.63%	1.71%	1.54%	1.60%
Statistics Canada	$263,794	$317,744	$333,421	$313,546	$362,593
Innovation and Service Excellence Program	-	-	-	-	$737
Alberta Economic Development Investment and Trade	$14,658	$14,381	$12,302	$16,255	$13,490
Alberta Economic Development Industry and Regional Development	$7,414	$7,352	$7,305	$7,918	$9,847
Alberta Energy Innovative Energy Technology Program	-	-	-	-	$2,246
TOTAL Innovation	$285,866	$339,477	$353,028	$337,719	$388,913
GOA Expense	$19,038,000	$20,865,000	$20,685,000	$21,883,000	$24,329,000

Measure 1.b: Number of Albertans employed in knowledge-intensive (high-tech) companies.

Alberta Economic Development purchases Labour Force Survey data for each calendar year from Statistics Canada. Alberta Economic Development reviews the data and sends it to the Ministry of Innovation and Science in the original form.

Results are based on the Statistics Canada Labour Force Survey for calendar year 2005. Only annual averages appear in this measure. The margin of error with provincial annual averages is consistent with a coefficient of variation of between 10 per cent and 15 per cent. Detailed information about the methodology and data accuracy for the survey can be found in the *Guide to the Labour Force Survey*.

Alberta employment information was obtained from Statistics Canada using pre-determined NAICS codes. Ministry staff worked with Alberta Economic Development and consulted with Statistics Canada to develop a comprehensive definition of the knowledge-intensive (high-tech) sector, based on NAICS codes. This ensures that the data is specific and comparable from year to year.

Measure 1.c: Albertans employed in knowledge-intensive (high-tech) companies as a percentage of Albertans employed in all companies.

The same sources and data are used as described in measure 2 "Number of Albertans employed in knowledge-intensive (high-tech) companies". In addition, the total employment was obtained for each year and the percentage was calculated.

Measure 1.d: Percentage of Canadian venture capital invested in Alberta.

The Ministry obtains data from the VCAnalyst database, a subscription-based service provided by Thompson MacDonald Ltd. (a private company considered the premier source of venture capital information in Canada). The source data from Thompson MacDonald is dynamic with additional data relevant to a period added continually as it becomes known.

The method for reporting this measure has changed from a fiscal year to a calendar year to allow more time for deals to be entered in the database. The method was also changed to better reflect investment in knowledge-based businesses.

Measure 1.e: Alberta Business Expenditures on Research and Development.

The data is gathered annually by Statistics Canada using surveys of business. The report is Science Statistics Vol. 29 No. 8, *Total spending on research and development in Canada, 1990 to 2005, and provinces, 1990 to 2003*, released December 9, 2005 catalogue no. 88-001-XIE2005006. The specific report providing the data used is available at: www.statcan.ca:8096/bsolc/english/bsolc?catno=88-001-X20050088979.

The data was obtained from page 7, the Funding portion of Table 7: R&D expenditures in the provinces by business enterprise, in terms of performing and funding, 1990 to 2003, in the column labeled "Alberta.".

Statistics Canada obtains research and development data from research performers. The data is then presented in terms of performing and funding. The performing view of the data presents how much money the performing entity spent regardless of who provided the money. The funding view of the data presents who provided the money regardless of which performing entity spent it.

Goal 2

Measure 2.a: Total sponsored research revenue attracted by Alberta universities.

This measure provides the value of sponsored research at Alberta universities. The funding sources include the provincial government, industry and non-profit organizations and the federal government.

Sponsored research revenues are those received outside of the university regular operating grant and include both research grants and research contracts. This performance measure reflects research capability in Alberta through the success of its major universities in attracting sponsored research funding from several sources. The data are provided to the Ministry of Innovation and Science by the University of Alberta, University of Calgary, University of Lethbridge and Athabasca University.

The universities submit the data using a template and guidelines that outline the information required and specific instructions regarding how the revenue should be reported. This ensures that the data submitted is comparable across universities. The universities derive the data from financial statements and supplementary schedules. The reported data are compiled and organized by the Ministry Innovation and Science in the *Research Funding at Alberta Universities Report*.

Measure 2.b: Total sponsored research revenue attracted by Alberta technical institutes and colleges.

The data, provided annually, is based on financial reports provided by colleges and technical institutes to the Ministry of Advanced Education. The data was generated by a review of those financials for any identifiable sponsored or contract research revenue. Alberta colleges and technical institutes that contributed to this measure in 2005–06 were the Alberta College of Art and Design, Lethbridge Community College, and Olds College. There is a one-year lag in the data, as the year-end for the colleges and technical institutes is June 30. For the 2005–06 annual report, the most recent data available is for 2004–05.

Given that the data used was not intended for this purpose, it is possible that the reported actual underestimates sponsored or contract research revenue. To address this issue, the Ministry is developing a more systematic approach to identifying sponsored or contract research revenue from colleges and technical institutes.

Goal 3

Measure 3.a: Ratio of private and other public investments in energy research to Government of Alberta (GOA) investments in energy research.

The ratio is based on investments over the life of the research agreement rather than expenditures in a single year, as multi-year agreements often have different payment schedules. Higher or lower expenditures in one year can affect the leverage ratio results. By calculating over the life of the project, greater consistency is achieved. While in-kind costs from other research participants can be significant, further work is required to establish consistency in how these costs are calculated before they can be included in the leverage ratio. The costs for strategic program area research managers are excluded. ARC contributions are also excluded because they are considered in-kind, since it is a research performer. Also, ARC receives funding from many sources and the ability to report project funding by source of funds is not in place.

The Ministry of Innovation and Science obtains data from active research agreements and enters it into the SIR database. Information is added after research agreements are signed and updated or when the agreements are amended or more recent information becomes available from annual reports, etc. The summary reports from the SIR database were generated in August 2006 to calculate the ratio.

Measure 3.b:

Non-GOA investment in energy research:

- Non-GOA investment through existing programs (in millions)
- Non-GOA investment through EnergyINet (in millions.)

GOA Investment in energy research:

- GOA investment through existing programs (in millions)
- GOA investment through EnergyINet (in millions).

Same as above, but the measure is based on fiscal year expenditures for grants, which can often vary from year to year. Grant agreements are typically multi-year in nature, and the amount of expenditure by the Government of Alberta will vary depending on the terms of the agreement. The non-Government of Alberta portion is calculated on a yearly basis by dividing the amount of the contribution by the number of years of the agreement.

Measure 3.c: Growth of EnergyINet - number of participating organizations.

The operations manager for EnergyINet supplied the data. All paid memberships from October 2005 to March 2006 were included. A list of current members is available at www.energyinet.com. However, the current list may vary from the numbers reported for 2005–06. The membership numbers are backed up by invoices and deposits to the EnergyINet bank account.

Goal 4

Measure 4.a: Total number of ICT researchers and graduate students attracted to Alberta universities by iCORE Inc.

The data in this measure is based upon the active contracts that iCORE has with the universities to fund major awards and graduate student awards. The measure was modified by adding the number of new awards in the fiscal year. Previously, only active awards were reported. Based on audit feedback, the wording in the measure was revised to clearly reflect that it is awards, not people, that are counted.

iCORE also publishes a more detailed performance measure report with measures derived from the following sources:

- Detailed annual reports submitted by every research chair each June for the previous fiscal year, which include counts and details of approximately 25 reporting variables.
- Survey of all graduate student scholarship recipients (past and present) conducted by iCORE every summer, which looks at their education and employment status.

iCORE has board-approved criteria and processes for making graduate student awards. The board of directors or its proxy, the Internal Review Committee, approves award criteria. iCORE's decisions on major awards are recorded in Internal Review Committee minutes. iCORE receives confirmation of graduate student eligibility from the students and verifies this with the universities.

Measure 4.b: Ratio of private and other public investments in ICT research to GOA investments in ICT research.

The Ministry of Innovation and Science obtains data from active research agreements and enters it into the SIR database. Information is added after research agreements are signed and updated or when the agreements are amended or more recent information becomes available from annual reports. The summary reports from the SIR database were generated in August 2006 to calculate the ratio.

The ratio is calculated based on the combined data from the SIR database and iCORE. It is also based on investments over the life of the research agreement rather than expenditures in a single year, as multi-year agreements often have different payment schedules. Higher or lower expenditures in one year can affect the leverage ratio results. By calculating over the life of the project, greater consistency is achieved.

iCORE requires researchers that it funds to submit, by May 15 each year, an annual report for the previous fiscal year (April 1 to March 31). The annual report from researchers contains details on all the funding the researchers obtain including sources in addition to those where iCORE is a party and whether there is proof of the funding. The information is cross-validated with other sources (Canada Foundation for Innovation, Canada Research Chairs, ASRIP and Alberta Ingenuity). Careful attention is given to ensure that there is no double counting of other contributors in situations where iCORE and the Ministry of Innovation and Science fund the same project.

The divisions and entities that contribute data for this goal are iCORE, Innovation Implementation and the University Research and Strategic Investments branch. Contributions by AHFMR and Alberta Ingenuity are considered Government of Alberta funding when determining the ratio.

Measure 4.c: Non-GOA Investment in ICT research, and GOA Investment in ICT research.

This measure defines Government of Alberta investment in ICT research as including the Ministry of Innovation and Science, iCORE, Alberta Ingenuity and other provincial government departments. Non-Government of Alberta investment in ICT research does not include other Government of Alberta funding programs (such as Alberta Ingenuity or any in-kind contributions) but does include university contributions.

The data are derived from the SIR database and iCORE. iCORE collects annual reports from all of the researchers that it funds. Data gathered contains the funding source, years, total funding, funding per year and description of each contributor directed to each researcher. Data is entered into the SIR database from project contracts where projects figures and category assignments are reviewed for accuracy. Edit checks are performed during consolidation with iCORE data.

Goal 5

Measure 5.a: Ratio of private and other public investments in life sciences research to GOA investments in life sciences research.

The ratio is based on investments over the life of the research agreement rather than expenditures in a single year, as multi-year agreements often have different payment schedules. Higher or lower expenditures in one year can affect the leverage ratio results. By calculating over the life of the project, greater consistency is achieved. While in-kind costs from other research participants can be significant, further work is required to establish consistency in how these costs are calculated before they can be included in the leverage ratio. The costs for strategic program area research managers are excluded. ARC contributions are also excluded because they are considered in-kind since it is a research performer. Also, ARC receives funding from many sources and the ability to report project funding by source of funds is not in place.

The Ministry of Innovation and Science obtains data from active research agreements and enters it into the SIR database. Information is added after research agreements are signed and updated or when the agreements are amended or more recent information becomes available from annual reports, etc. The summary reports from the SIR database were generated in August 2006 to calculate the ratio.

The divisions and entities that contribute data for this goal are AARI, AFRI, Innovation Implementation and the University Research and Strategic Investments branch. Contributions by AHFMR, Alberta Ingenuity and the Capital Health Authority are considered Government of Alberta funding when determining the ratio.

Measure 5.b: Non-GOA Investment in life sciences research, and GOA Investment in life sciences research.

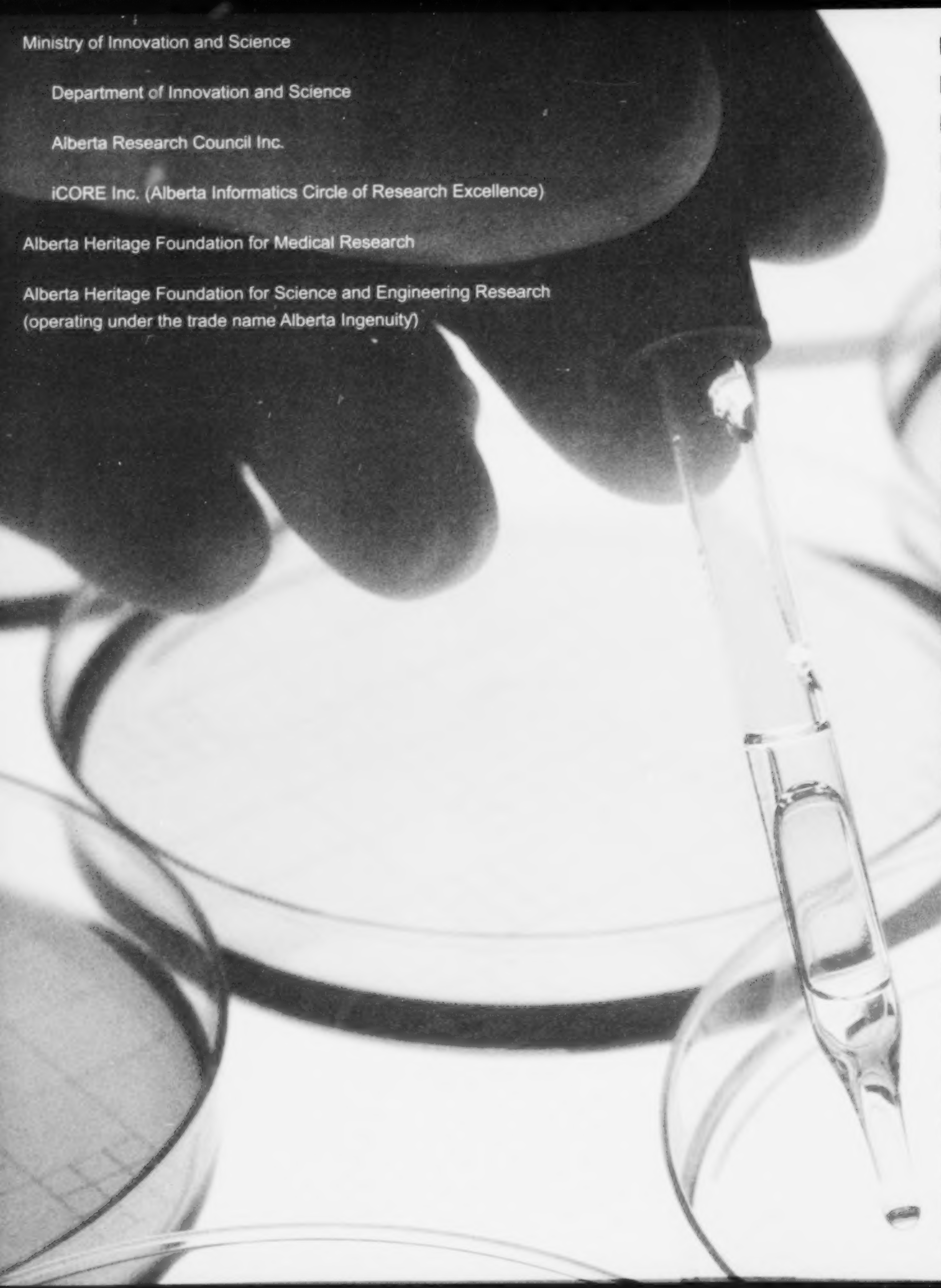
Same as above, but the measure is based on fiscal year expenditures for grants that can often vary in expenditures from year to year. Grant agreements are typically multi-year in nature and the amount of expenditure by Government of Alberta will vary depending on the terms of the agreement. The non-Government of Alberta portion is calculated on a yearly basis by dividing the amount of the contribution by the number of years of the agreement.

Key Corporate Activities

Measure: Innovation and Science Employee Satisfaction and Understanding of Contribution

An external survey firm (Research Innovations Inc.) designs and administers all aspects of the survey in consultation with the Personnel Administration Office. Survey results are accurate within plus or minus five per cent at a 95 per cent confidence level.

The source document, *Government of Alberta 2005 Corporate Employee Survey: Results for Innovation and Science Employees (Research Innovations Inc.)*, will provide detailed information about the survey methodology.



Ministry of Innovation and Science

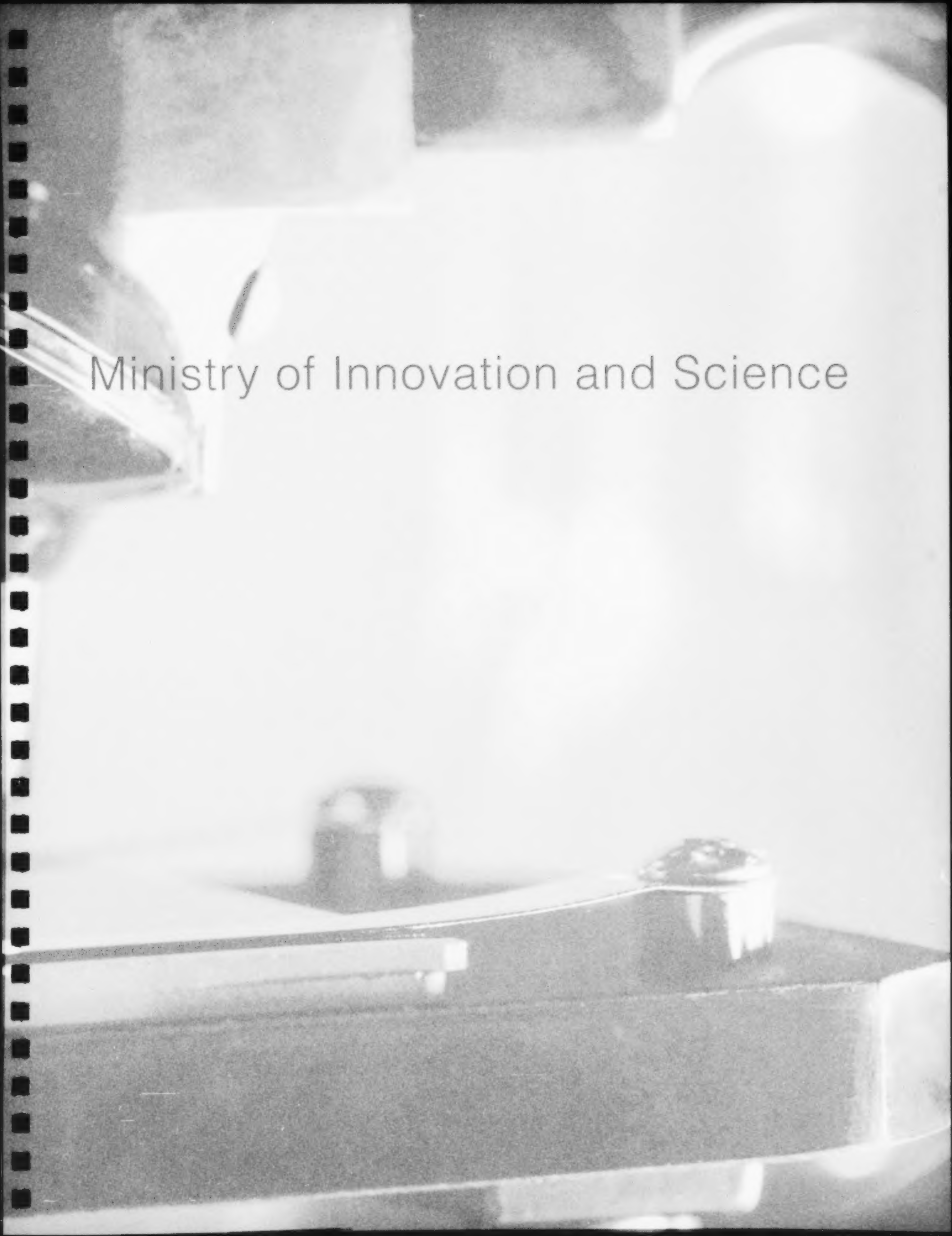
- Department of Innovation and Science
- Alberta Research Council Inc.
- iCORE Inc. (Alberta Informatics Circle of Research Excellence)

Alberta Heritage Foundation for Medical Research

Alberta Heritage Foundation for Science and Engineering Research
(operating under the trade name Alberta Ingenuity)

Financial Information

Ministry of Innovation and Science



Consolidated Financial Statements

for the year ended March 31, 2006

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Consolidated Schedule of Expenses - Directly Incurred Detailed By Object

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AUDITOR
GENERAL
Alberta

Auditor's Report

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Innovation and Science as at March 31, 2006 and the consolidated statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the Ministry's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Innovation and Science as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 20, 2006

Consolidated Statement of Operations

for the year ended March 31, 2006

(In thousands)

	2006		2005
	Budget	Actual	Actual
REVENUES (Note 2, Schedule 2)			
Internal Government Transfers	$ 60,238	$ 60,238	$ 69,285
Transfers from Government of Canada	2,442	1,485	374
Investment Income	500	649	956
Other Revenue	47,450	39,223	34,162
Total REVENUES	110,630	101,595	104,777
EXPENSES - Directly Incurred (Note 2, Schedule 2)			
Innovation Acceleration			
Technology Commercialization Initiatives	3,175	34,887	5,120
Innovation and Service Excellence Program	16,172	5,097	737
Emerging Opportunities	6,875	4,308	-
Alberta Research Council Inc.			
Core Research Funding	26,000	26,000	27,862
Contract Research	48,480	35,439	31,710
Innovation Capacity			
Research Capacity			
Alberta Science and Research Investment Program	22,453	29,061	35,516
Science Awareness	1,500	2,919	1,025
Energy Sector			
Energy Research Strategy	9,722	9,977	7,341
Climate Change	7,000	4,332	7,295
Life Sciences Sector			
Life Sciences	11,635	15,383	49,483
Information and Communication Technology (ICT) Sector			
ICT Investments	3,300	3,836	1,500
iCORE Inc. (Informatics Circle of Research Excellence)	10,620	11,262	10,200
Operations and Policy Implementation			
Innovation Acceleration	6,027	6,545	5,001
Innovation Capacity	5,342	5,547	5,009
Ministry Support Services	5,146	4,468	4,279
Total Program Expenses	183,447	199,061	192,078
Other Expenses			
Valuation Adjustment - Provision for Vacation Pay	-	35	99
Total Other Expenses	-	35	99
Total Program Expenses	183,447	199,096	192,177
Other Expenses			
Writedown of Tangible Capital Assets	-	315	-
Gain on Disposal of Tangible Capital Assets	-	(360)	(70)
Total Other Expenses	-	(45)	(70)
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	(72,817)	(97,456)	(87,330)
OTHER			
Operating Loss from Discontinued Operations (Note 3)	-	-	554
Writedown of Tangible Capital Assets (Note 3)	-	-	4,591
Gain on Disposal of Tangible Capital Assets	-	-	(25)
Total OTHER	-	-	5,120
NET OPERATING RESULTS	$ (72,817)	$ (97,456)	$ (92,450)

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Financial Position

as at March 31, 2006

	(In thousands)	
	2006	2005
ASSETS		
Cash (Note 4)	$ 8,766	$ 27,027
Restricted Cash (Note 4)	843	899
Marketable Securities (Note 5)	-	170
Accounts Receivable (Note 6)	15,441	12,387
	25,050	40,483
Tangible Capital Assets (Note 8)	14,953	14,435
	$ 40,003	$ 54,918
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 21,942	$ 66,962
Holdback Liability	-	485
Unearned Revenue	6,252	4,878
Deferred Contributions (Note 9)	1,540	899
Current Portion of Long-Term Debt (Note 10)	273	447
	30,007	73,671
Long-Term Debt (Note 10)	-	273
Accumulated Provision for Project Abandonment (Note 11)	263	263
	30,270	74,207
NET ASSETS		
Net Assets, Beginning of Year	(19,289)	22,064
Net Operating Results	(97,456)	(92,450)
Transfer to Alberta Agriculture, Food and Rural Development	-	(139)
Transfer to Alberta Infrastructure and Transportation	(4,378)	-
Net Transfers (to) from General Revenue	130,856	51,236
Net Assets, End of Year	9,733	(19,289)
	$ 40,003	$ 54,918

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Cash Flow

for the year ended March 31, 2006

(In thousands)

	2006	2005
OPERATING TRANSACTIONS		
Net Operating Results	$ (97,456)	$ (92,450)
Non-Cash Items:		
Amortization	1,796	1,562
Valuation Adjustments	35	99
Writedown of Tangible Capital Assets	315	-
Gain on Disposal of Tangible Capital Assets	(360)	(70)
Write down of Marketable Securities	59	557
Purchase of Marketable Securities	-	(212)
Gain on Sale of Marketable Securities	(238)	(578)
Proceeds from Sale of Marketable Securities	349	838
	(95,500)	(90,254)
Cash Provided by Continuing Operations:		
(Decrease) / Increase in Current Portion of Long Term Debt	(174)	24
Increase in Accounts Receivable	(3,054)	(2,093)
(Decrease) / Increase in Accounts Payable and Accrued Liabilities	(45,055)	51,768
Decrease in Holdback Liability	(485)	(310)
Increase in Unearned Revenue	1,374	1,041
Increase / (Decrease) in Deferred Contributions	641	(462)
Decrease in Accumulated Provision for Project Abandonment	-	(923)
Cash Provided by Continuing Operations	(142,253)	(41,209)
Cash Used by Discontinued Operations (Note 3):		
Gain on Disposal of Tangible Capital Assets	-	(25)
Writedown of Tangible Capital Assets	-	4,591
Amortization	-	889
Cash Used by Discontinued Operations (Note 3)	-	5,455
CASH PROVIDED (APPLIED TO) BY OPERATING TRANSACTIONS [1]	(142,253)	(35,754)
CAPITAL TRANSACTIONS		
Acquisition of Tangible Capital Assets (Schedule 2)	(8,078)	(4,924)
Tangible Capital Assets Transferred to Other Ministries	996	-
Tangible Capital Assets Transferred from Other Ministries	-	-
Proceeds from Disposal of Tangible Capital Assets	435	93
CASH PROVIDED (APPLIED TO) BY CAPITAL TRANSACTIONS	(6,647)	(4,831)
INVESTING TRANSACTIONS		
Decrease in Restricted Cash	56	462
Repayment of Long Term Debt	(273)	(448)
CASH PROVIDED (APPLIED TO) BY INVESTING TRANSACTIONS	(217)	14
FINANCING TRANSACTIONS		
Net Transfers (to) from General Revenue	130,856	51,236
CASH PROVIDED (APPLIED TO) BY FINANCING TRANSACTIONS	130,856	51,236
INCREASE (DECREASE) IN CASH	(18,261)	10,665
CASH, BEGINNING OF YEAR	27,027	16,362
CASH, END OF YEAR	$ 8,766	$ 27,027

The accompanying notes and schedules are part of these financial statements.

[1] Cash used by operating transactions in 2004-05 includes $554 from discontinued operations.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 1 Authority and Purpose

The *Government Organization Act* and its regulations have designated the Minister of Innovation and Science as responsible for various Acts. To fulfil these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Innovation and Science.

Organization:	Authority:
Department of Innovation and Science	*Government Organization Act*
Alberta Research Council Inc. including its wholly owned subsidiary C-FER Technologies (1999) Inc.	*Alberta Science and Research Authority Act*
iCORE Inc.	*Alberta Science and Research Authority Act*

The purpose of the Ministry of Innovation and Science (the Ministry) is to enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans.

As per Order in Council 103/2005, all shares in Alberta Research Council Inc. and iCORE Inc. were transferred from the Alberta Science and Research Authority to the Ministry of Innovation and Science, effective April 1, 2005.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity

The reporting entity is the Ministry of Innovation & Science (Ministry) and includes the operations of the Department of Innovation & Science and its subsidiaries the Alberta Research Council Inc. and iCORE Inc. The financial statements for the individual entities provide more detailed information about the operations of each entity.

The Alberta Heritage Foundation for Science and Engineering Research (AHFSER) and the Alberta Heritage Foundation for Medical Research (AHFMR) and its subsidiary the Alberta Foundation for Health Research (AFHR) are required to forward a copy of their annual reports to the Minister for tabling in the Legislature. However, the financial statements of AHFSER, AHFMR and AFHR are not consolidated in these financial statements.

b) Method of Consolidation

The activities of the entities within the Ministry are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

c) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Royalties and licensing fee revenues are recognized when the amounts can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues are shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Ministry may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Expenses
Grants – Grants are recorded as expenses when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Ministry has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs, which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Incurred by Others - Services contributed by other entities in support of Ministry operations are disclosed in Schedule 4.

Assets - Financial assets of the Ministry include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The fair values of marketable securities are estimated to approximate their carrying values.

Assets acquired by right are not included in these statements. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other tangible capital assets is $5,000.

Expenses for patents owned by the Ministry as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue to the Ministry.

Expenses on the acquisition or development of other intangible assets including intellectual capital are not capitalized as currently there is no acceptable methodology for measuring the value of future benefits accruing to the Ministry.

Liabilities - Liabilities represent all financial claims payable by the Ministry at fiscal year end. Under certain joint participation agreements the Ministry will incur certain costs when projects are abandoned.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Net Assets - Net assets represent the difference between the value of assets held by the Ministry and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, restricted cash, marketable securities, accounts receivable, accounts payable, accrued liabilities and unearned revenue are estimated to approximate their book values because of the short-term nature of these instruments.

The fair value of long-term debt approximates its carrying value as interest rates approximate the market rate.

Note 3 Discontinued Operations (In thousands)

Effective March 31, 2005, Alberta Research Council closed the operations of the Biologics business unit.

The loss on discontinued operations is as follows:

	2006	2005
Revenue	$ -	$ 3,763
Expense	-	4,317
Operating loss from discontinued operations	-	(554)
Gain on disposal of tangible capital assets	-	25
Write down of tangible capital assets	-	(4,591)
	$ -	$ (5,120)

On the Consolidated Statement of Operations, actual results for discontinued operations are reported separately from continuing operations and are reported on a net basis. Prior year results have been reclassified to reflect this change.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 4 Cash (In thousands)

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Minister of Finance administers the Fund. All cash receipts of the Department of Innovation and Science are deposited into the Fund and all cash disbursements made by the Department of Innovation and Science are paid from the Fund. Net transfers to/from General Revenues is the difference between all cash receipts and all cash disbursements made.

Cash consists primarily of the Alberta Research Council Inc. and iCORE Inc. deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term securities with a maximum term to maturity of under three years. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest of $640 (2005 – $956) earned on the cash balance of the Ministry's CCITF accounts has been credited to the accounts and is reported in these financial statements.

The Ministry has a Restricted Cash balance of $843 (2005 - $899) related to specific research projects and programs.

Note 5 Marketable Securities (In thousands)

Marketable securities of $nil (2005 - $170) consist of investments in shares of private companies; the market value of $nil (2005 - $383) approximates fair value.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 6 Accounts Receivable (In thousands)

	2006			2005
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 13,344	$ 751	$ 12,593	$ 11,062
Federal Government	1,168	-	1,168	374
Accountable Advances	2	-	2	7
Alberta Government Departments and Agencies	1,678	-	1,678	944
	$ 16,19[illegible]	$ 751	$ 15,441	$ 12,387

Accounts receivable are unsecured and non-interest bearing.

Note 7 Contract Revenue (In thousands)

During the year, the Alberta Research Council Inc. provided $nil (2005 - $147) of services in exchange for shares and warrants (see Note 13) of a public company.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 8 Tangible Capital Assets (In thousands)

		2006			2005
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ 566
Building [1]	30 years	2,142	508	1,634	3,389
Equipment - Other [2]	3 to 20 years	36,606	25,124	11,482	9,689
Computer Hardware / Software	3 to 5 years	2,309	1,606	703	180
Leasehold Improvements	25 years	975	407	568	611
		$ 42,598	$ 27,645	$ 14,953	$ 14,435

[1] During 2005, the Alberta Research Council began construction of a new Agriculture Fibre Processing Facility at the Mill Woods Building. This facility was completed during 2006 at a total cost of $4,378. The total costs incurred during 2006 were $2,667 (2005 - $1,711). The ownership of the facility has been transferred to the Ministry of Alberta Infrastructure and Transportation.

[2] Equipment also includes furniture and fixtures.

Note 9 Deferred Contributions (In thousands)

Deferred Contributions $1,540 (2005 - $899) represent unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

	2006	2005
Alberta Agricultural Research Institute Development Programs	$ 697	$ 630
Alberta Research Council Inc. Canadian International Development Agency Project	843	269
	$ 1,540	$ 899

Note 10 Long-Term Debt (In thousands)

	2006	2005
5.37% mortgage, payable in monthly installments of $39 including interest, due October 1, 2006.	$ 273	$ 720
Less current portion	273	447
	$ -	$ 273

A demand debenture has been pledged as collateral for the mortgage including:

- a fixed charge over land, building and equipment with a net book value of $3,206 (2005 - $3,242),
- a floating charge over other assets,
- an assignment of insurance proceeds, and
- a general security agreement registered under the *Personal Property Security Act* creating a floating charge over all property and assets, both present and future.

Note 11 Accumulated Provision for Future Project Abandonment (In thousands)

Under joint participation agreements, the Ministry will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $263 (2005 – $263).

Note 12 Contractual Obligations (In thousands)

	2006	2005
Research Grants	$ 57,642	$ 57,158
General Service Contracts	564	2,949
Long-term Leases	374	356
	$ 58,580	$ 60,463

The aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

Year	Research Grants	General Service Contracts	Leases	Total
2007	$ 34,616	$ 564	$ 141	$ 35,321
2008	11,433	-	110	11,543
2009	6,441	-	90	6,531
2010	4,223	-	33	4,256
2011	929	-	-	929
Thereafter	-	-	-	-
	$ 57,642	$ 564	$ 374	$ 58,580

Note 13 Warrants and Options

As part of the consideration for granting various licenses, the Ministry (through the Alberta Research Council Inc.) has received a number of options and warrants to acquire common shares of public companies.

The Alberta Research Council Inc. is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 14 Contingencies (In thousands)

At March 31, 2006, the Ministry is a defendant in three legal claims (2005 – two legal claims). Two of these claims have specified amounts totalling $52,200 (2005 – $52,200). The value of the third claim is unknown at this time. The resulting loss, if any, for these claims cannot be determined.

Note 15 Defined Benefit Plans (In thousands)

The Ministry participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $3,318 for the year ending March 31, 2006 (2005 – $2,823).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 – $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 – $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 – $9,404).

The Ministry also participates in two multi-employer Long-Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 – $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,311 (2005 – $3,208). The expense for these two plans is limited to employer's annual contributions for the year.

Note 16 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Note 17 Approval of Financial Statements

The Deputy Minister and the Chief Financial Officer for the Ministry of Innovation and Science approved the financial statements.

Schedule to Financial Statements

Consolidated Schedule of Expenses – Directly Incurred Detailed by Object

for the year ended March 31, 2006

Schedule 1

(In thousands)

	2006		2005
	Budget	Actual	Actual
OBJECT			
Salaries, Wages and Employee Benefits	$ 52,673	$ 51,696	$ 47,855
Supplies and Services	40,949	27,830	27,750
Grants	86,572	117,340	114,140
Financial Transactions and Other	153	399	771
Amortization of Tangible Capital Assets	3,100	1,796	1,562
Valuation Adjustments	-	35	99
Total VOTED AND STATUTORY EXPENSES	$ 183,447	$ 199,096	$ 192,177

Schedule to Financial Statements

Consolidated Schedule of Operations by Entity

for the year ended March 31, 2006

Schedule 2

(In thousands)

	2006						2005
	Estimates	Adjustment [(a)]	Budget	Voted Supplementary [(b)]	Authorized Budget	Actual	Actual
REVENUES							
Department	$ 61,430	$ -	$ 61,430	$ -	$ 61,430	$ 62,310	$ 70,806
Alberta Research Council Inc.	78,200	-	78,200	-	78,200	68,475	65,270
Informatics Circle of Research Excellence	10,620	-	10,620	-	10,620	12,437	10,206
Consolidation Adjustments	(39,620)	-	(39,620)	-	(39,620)	(41,627)	(41,505)
Total REVENUES	110,630	-	110,630	-	110,630	101,595	104,777
EXPENSES							
Program							
Voted							
Department	134,967	-	134,967	30,000	164,967	163,580	160,314
Statutory							
Department	-	-	-	-	-	35	99
Alberta Research Council Inc.	77,480		77,480	-	77,480	64,808	62,888
Informatics Circle of Research Excellence	10,620	-	10,620	-	10,620	12,412	10,200
Consolidation Adjustments	(39,620)	-	(39,620)	-	(39,620)	(41,739)	(41,324)
Total Program Expenses	183,447	-	183,447	30,000	213,447	199,096	192,177
Other Expenses							
Writedown of Tangible Capital Assets	-	-	-	-	-	315	-
Gain on Disposal of Tangible Capital Assets	-	-	-	-	-	(360)	(70)
Total Other Expenses	-	-	-	-	-	(45)	(70)
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	183,447	-	183,447	30,000	213,447	199,051	192,107
OTHER							
Operating Loss from Discontinued Operations (Note 3)	-	-	-	-	-	-	554
Writedown of Tangible Capital Assets (Note 3)	-	-	-	-	-	-	4,591
Gain on Disposal of Tangible Capital Assets	-	-	-	-	-	-	(25)
Total OTHER	-	-	-	-	-	-	5,120
NET OPERATING RESULTS	$ (72,817)	$ -	$ (72,817)	$ (30,000)	$ (102,817)	$ (97,456)	$ (92,450)
CAPITAL INVESTMENT, EQUIPMENT/INVENTORY PURCHASES							
Voted							
Department	300	-	300	-	300	1,394	186
Statutory							
Alberta Research Council Inc.	4,002	-	4,002	-	4,002	6,684	4,738
Total EQUIPMENT/INVENTORY PURCHASES	$ 4,302	$ -	$ 4,302	$ -	$ 4,302	$ 8,078	$ 4,924

(a) Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expense, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.

(b) A Supplementary Estimate was approved on March 16, 2006. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

Schedule to Financial Statements
Consolidated Schedule of Related Party Transactions

for the year ended March 31, 2006

Schedule 3

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Other Entities	
	2006	2005
REVENUES		
Lottery Fund	$ 60,238	$ 69,285
Grant	154	-
Other Revenue	3,035	1,620
	$ 63,427	$ 70,905
EXPENSES - DIRECTLY INCURRED		
Supplies and Services	$ 2,263	$ 2,654
Grants	58,744	59,441
	$ 61,007	$ 62,095
TANGIBLE CAPITAL ASSETS TRANSFERRED TO/FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 996	$ 139
RECEIVABLES DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,050	$ 901
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,963	$ 8,953

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service.

(In thousands)

	Other Entities	
	2006	2005
EXPENSES - INCURRED BY OTHERS		
Accommodations from the Ministry of Infrastructure & Transportation	$ 15,845	$ 14,835
Legal services from the Ministry of Justice	224	77
Air Transportation Services/Executive Vehicle from Infrastructure and Transportation	11	7
	$ 16,080	$ 14,919

Schedule to Financial Statements

Consolidated Schedule of Allocated Costs

for the year ended March 31, 2006

Schedule 4

(in thousands)

	2006					2005
		Expenses Incurred by Others		Valuation Adjustment		
	Expenses [1]	Accommodation Costs [2]	Legal Costs [3]	Vacation Pay [4]	Total	Total
Program						
Innovation Acceleration						
Technology Commercialization Initiatives	$ 34,887	$ -	$ -	$ -	$ 34,887	$ 5,120
Innovation and Service Excellence Program	5,097	-	-	-	5,097	737
Emerging Opportunities	4,308	-	-	-	4,308	-
Alberta Research Council Inc.	61,439	15,526	-	-	76,965	73,965
Innovation Capacity						
Research Capacity						
Alberta Science and Research Investment Program	29,061	-	-	-	29,061	35,516
Science Awareness	2,919	-	-	-	2,919	1,025
Energy Sector						
Energy Research Strategy	9,977	-	-	-	9,977	7,341
Climate Change	4,332	-	-	-	4,332	7,295
Life Sciences Sector						
Life Sciences	15,383	-	-	-	15,383	49,483
Information and Communication Technology (ICT) Sector						
ICT Investments	3,836	-	-	-	3,836	1,500
iCORE Inc. (Informatics Circle of Research Excellence)	11,262	39	-	-	11,301	10,238
Operations and Policy Implementation						
Innovation Acceleration	6,545	22	25	-	6,592	5,084
Innovation Capacity	5,547	222	171	35	5,975	5,361
Ministry Support Services	4,468	36	28	-	4,532	4,424
	199,061	15,845	224	35	215,165	207,089
Other Expenses						
Writedown of Tangible Capital Assets	315	-	-	-	315	-
Gain on Disposal of Tangible Capital Assets	(360)	-	-	-	(360)	(70)
Total Other Expenses	(45)	-	-	-	(45)	(70)
OTHER						
Operating Loss from Discontinued Operations (Note 3)	-	-	-	-	-	354
Writedown of Tangible Capital Assets (Note 3)	-	-	-	-	-	4,591
Gain on Disposal of Tangible Capital Assets	-	-	-	-	-	(25)
Total OTHER	-	-	-	-	-	5,120
Total Expenses	$ 199,016	$ 15,845	$ 224	$ 35	$ 215,120	$ 212,139

(1) Expenses - Directly incurred as per Statement of Operations, excluding valuation adjustments.
(2) Costs shown for Accommodation provided by the Ministry of Infrastructure and Transportation.
(3) Costs shown for Legal Services provided by the Ministry of Justice.
(4) Valuation Adjustments as per Statement of Operations.

Department of Innovation and Science

Financial Statements

for the year ended March 31, 2006

Auditor's Report

Statement of Operations

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Schedule of Dedicated Revenue Initiatives

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Schedule of Budget

Schedule of Comparison of Expenses - Directly Incurred, Equipment/Inventory & Statutory Expenses by Element to Authorized Budget

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

Schedule of Allocated Costs

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Minister of Innovation and Science

I have audited the statement of financial position of the Department of Innovation and Science as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department of Innovation and Science as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 20, 2006

Statement of Operations

for the year ended March 31, 2006

(In thousands)

	2006		2005
	Budget (Schedule 4)	Actual	Actual
REVENUES (Note 2 and Schedule 1)			
Internal Government Transfers	$ 60,238	$ 60,238	$ 69,285
Transfers from Government of Canada	1,192	1,485	374
Investment Income	-	72	415
Other Revenue	-	515	732
Total REVENUES	61,430	62,310	70,806
EXPENSES - Directly Incurred (Note 2 and Schedules 3 and 5)			
Voted Operating Expenses			
Ministry Support Services	5,146	4,468	4,279
Innovation Acceleration	58,249	76,837	38,738
Innovation Capacity	71,572	82,275	117,297
Total Voted Operating Expenses	134,967	163,580	160,314
Statutory			
Provision for Vacation Pay	-	35	99
Total Statutory Expenses	-	35	99
Total EXPENSES	134,967	163,615	160,413
OTHER			
Gain on Disposal of Tangible Capital Assets	-	(40)	-
Total OTHER	-	(40)	-
NET OPERATING RESULTS	$ (73,537)	$ (101,265)	$ (89,607)

The accompanying notes and schedules are part of these financial statements.

Statement of Financial Position

as at March 31, 2006

	(In thousands)	
	2006	2005
ASSETS		
Cash	$ -	$ 15,809
Restricted Cash	-	630
Accounts Receivable (Note 3)	1,190	420
Tangible Capital Assets (Note 4)	459	39
	$ 1,649	$ 16,898
LIABILITIES		
Accounts Payable and Accrued Liabilities	9,452	53,874
Holdback Liability	-	485
Deferred Contributions (Note 5)	697	630
	10,149	54,989
Accumulated Provision for Project Abandonment (Note 6)	263	263
	10,412	55,252
NET ASSETS		
Net Assets, Beginning of Year	(38,354)	156
Net Operating Results	(101,265)	(89,607)
Transfer to Alberta Agriculture, Food and Rural Development	-	(139)
Net Transfers from General Revenues	130,856	51,236
Net Assets, End of Year	(8,763)	(38,354)
	$ 1,649	$ 16,898

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows

for the year ended March 31, 2006

	(In thousands) 2006	2005
OPERATING TRANSACTIONS		
Net Operating Results	$ (101,265)	$ (89,607)
Non-Cash Items Included in Net Operating Results:		
Amortization of Capital Assets	18	34
Gain on Disposal of Tangible Capital Assets	(40)	-
Provision for Vacation Pay	35	99
	(101,252)	(89,474)
Increase in Accounts Receivable	(770)	(381)
(Decrease)/Increase in Accounts Payable and Accrued Liabilities	(44,457)	48,178
Decrease in Unearned Revenue	-	(10)
Decrease in Holdback Liability	(485)	(310)
Increase/(Decrease) in Deferred Contributions	67	(224)
Decrease in Accumulated Provision for Project Abandonment	-	(923)
CASH PROVIDED (APPLIED TO) BY OPERATING TRANSACTIONS	(146,897)	(43,144)
CAPITAL TRANSACTIONS		
Acquisitions of Tangible Capital Assets (Schedule 5)	(1,394)	(186)
Capital Assets Transferred to Other Ministries	996	-
CASH PROVIDED (APPLIED TO) BY CAPITAL TRANSACTIONS	(398)	(186)
INVESTING TRANSACTIONS		
Decrease in Restricted Cash	630	224
CASH PROVIDED (APPLIED TO) BY INVESTING TRANSACTIONS	630	224
FINANCING TRANSACTIONS		
Net Transfers (to) from General Revenues	130,856	51,236
INCREASE (DECREASE) IN CASH	(15,809)	8,130
CASH, BEGINNING OF YEAR	15,809	7,679
CASH, END OF YEAR	$ -	$ 15,809

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 1 Authority and Purpose

The Department of Innovation and Science operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The purpose of the Department of Innovation and Science (Department) is to enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

a) Reporting Entity

The reporting entity is the Department of Innovation and Science, which is part of the Ministry of Innovation and Science and for which the Minister of Innovation and Science is accountable. The other entities reporting to the Minister are its subsidiaries the Alberta Research Council Inc. and the Informatics Circle of Research Excellence Inc. The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfers (to) from General Revenues is the difference between all cash receipts and all cash disbursements made.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues are shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiatives.

Expenses

Grants – Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Incurred by Others - Services contributed by other entities in support of the Department's operations are disclosed in Schedule 7.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Financial Reporting (cont'd)

Assets - Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other tangible capital assets is $5,000.

Liabilities - Liabilities represent all financial claims payable by the Department at fiscal year end.

Net Assets - Net assets represent the difference between the value of assets held by the Department and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities are estimated to approximate their book values because of the short-term nature of these instruments.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 3 Accounts Receivable (In thousands)

	2006			2005
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 15	$ -	$ 15	$ -
Alberta Government Departments and Agencies	5	-	5	39
Federal Government	1,168	-	1,168	374
Accountable Advances	2	-	2	7
	$ 1,190	$ -	$ 1,190	$ 420

Accounts receivable are unsecured and non-interest bearing.

Note 4 Tangible Capital Assets (In thousands)

		2006			2005
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment - Other	5 to 10 years	$ 46	$ 1	$ 45	$ -
Computer Hardware and Software	3 to 10 years	542	128	414	39
		$ 588	$ 129	$ 459	$ 39

Notes to the Financial Statements

for the year ended March 31, 2006

Note 5 Deferred Contributions (In thousands)

Deferred Contributions $697 (2005 - $630) represent unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

	2006	2005
Alberta Agricultural Research Institute Development Programs	$ 697	$ 630
	$ 697	$ 630

Note 6 Accumulated Provision for Future Project Abandonment (In thousands)

Under joint participation agreements, the Department will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $263 (2005 – $263).

Note 7 Government Restructuring (In thousands)

As a result of Order in Council 103/2005, the Net Assets in the amount of $2,782 and programs of the Alberta Science and Research Authority (excluding the Alberta Research Council Inc. and iCORE Inc.) was assigned to the Department of Innovation and Science, as of April 1, 2005. All existing grant agreements or contracts that extended beyond March 31, 2005 were assigned to the Department for management and administration.

The Alberta Science and Research Authority (ASRA) current role focuses its efforts on providing strategic policy advice instead of executive management. As a result, the ASRA board members are not disclosed in the Salary and Benefits schedule.

Comparatives for 2005 have been restated as if the Department had always been assigned its current responsibilities.

Net assets as previously reported at March 31, 2005	$ (41,136)
Transfer from the Alberta Science and Research Authority	2,782
Net assets as restated at April 1, 2005	$ (38,354)

Note 8 Contractual Obligations (In thousands)

The Department had contractual obligations for grants and service contracts of $39,616 (2005 – $45,616) as at March 31, 2006.

	2006	2005
Service Contracts	$ 564	$ 269
Grants	38,881	45,347
	$ 39,445	$ 45,616

The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

Year	Grants	Service Contracts
2007	$ 28,803	$ 564
2008	5,764	-
2009	2,012	-
2010	1,373	-
2011	929	-
Thereafter	-	-
	$ 38,881	$ 564

Note 9 Contingent Liabilities (In thousands)

At March 31, 2006, the Department is a defendant in one legal claim (2005 – one legal claim). This claim has a specified amount totalling $50,000 (2005 – $50,000). The resulting loss, if any, for these claims cannot be determined.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 10 Defined Benefit Plans (In thousands)

The Department participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $813 for the year ended March 31, 2006 (2005 – $615).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 – $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 – $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 – $9,404).

The Department also participates in two multi-employer Long-Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 – $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,311 (2005 – $3,208). The expense for these two plans is limited to employer's annual contributions for the year.

Note 11 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Note 12 Approval of Financial Statements

The Deputy Minister and the Chief Financial Officer approved the financial statements.

Schedule to Financial Statements

for the year ended March 31, 2006

REVENUES

Schedule 1

(In thousands)

	2006 Budget	2006 Actual	2005 Actual
Contribution from Lottery Fund	$ 60,238	$ 60,238	$ 69,285
Transfers from Government of Canada	1,192	1,485	374
Investment Income	-	72	415
Other Revenue	-	515	732
Total REVENUES	$ 61,430	$ 62,310	$ 70,806

DEDICATED REVENUE INITIATIVES

Schedule 2

(In thousands)

	2006 Authorized Dedicated Revenues	2006 Actual Dedicated Revenues	2006 (Shortfall) / Excess
Energy Research Strategy	$ 1,192	$ 1,485	$ 293

The Department receives revenues from the Government of Canada to match funding for research grant initiatives.

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 3

(In thousands)

	2006 Budget	2006 Actual	2005 Actual
VOTED:			
Salaries, Wages and Employee Benefits	$ 9,590	$ 9,085	$ 8,369
Supplies and Services	8,223	6,740	6,204
Grants	116,742	147,607	145,607
Financial Transactions and Other	127	130	100
Amortization of Tangible Capital Assets	285	18	34
	$ 134,967	$ 163,580	$ 160,314
STATUTORY:			
Provision for Vacation Pay	-	35	99
TOTAL OPERATING EXPENDITURE	**$ 134,967**	**$ 163,615**	**$ 160,413**

Schedule to Financial Statements
Budget

for the year ended March 31, 2006

Schedule 4

(In thousands)

	2006				
	Estimates	Adjustment [a]	Budget	Authorized Supplementary [b]	Authorized Budget
REVENUES:					
Internal Government Transfers	$ 60,238	$ -	$ 60,238	$ -	$ 60,238
Transfers from Government of Canada	1,192	-	1,192	-	1,192
Investment Income	-	-	-	-	-
Other Revenue	-	-	-	-	-
Total REVENUES	61,430	-	61,430	-	61,430
EXPENSES - DIRECTLY INCURRED					
Voted Operating Expenses					
Ministry Support Services	5,146	-	5,146	-	5,146
Innovation Acceleration	58,249	-	58,249	30,000	88,249
Innovation Capacity	71,572	-	71,572	-	71,572
Dedicated Revenue Shortfall (Schedule 2)	-	-	-	-	-
Total EXPENSES	134,967	-	134,967	30,000	164,967
OTHER					
Loss on Disposal of Tangible Capital Assets	-	-	-	-	-
Total OTHER	-	-	-	-	-
NET OPERATING RESULTS	$ (73,537)	$ -	$ (73,537)	$ (30,000)	$ (103,537)
EQUIPMENT/ INVENTORY PURCHASES	$ 300	$ -	$ 300	$ -	$ 300

(a) Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expense, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.

(b) A Supplementary Estimate was approved on March 16, 2006. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

Comparison of Expenses — Directly Incurred, Equipment/Inventory and Statutory Expenses by Element to Authorized Budget

for the year ended March 31, 2006

Schedule 5

(In thousands)

	2006						
	Estimates	Adjustment (a)	Budget	Authorized Supplementary (b)	Authorized Budget	Actual (c)	Unexpended (Over Expended)
VOTED EXPENSES AND EQUIPMENT AND INVENTORY PURCHASES							
Program 1 Ministry Support Services							
1.0.1 Minister's Office	$ 347	$ -	$ 347	$ -	$ 347	$ 344	$ 3
1.0.2 Deputy Minister's Office	447	-	447	-	447	461	(14)
1.0.3 Communications	672	-	672	-	672	663	9
1.0.4 Corporate Services							
- Operating Expense	3,680	-	3,680	-	3,680	3,000	680
- Equipment & Inventory Purchases	-	-	-	-	-	381	(381)
Program Total	5,146	-	5,146	-	5,146	4,849	297
Program 2 Innovation Acceleration							
2.1 Acceleration Innovation							
2.1.1 Technology Commercialization Initiatives	3,175	-	3,175	30,000	33,175	34,887	(1,712)
2.1.2 Innovation and Service Excellence Program							
- Operating Expense	16,172	-	16,172	-	16,172	5,097	11,075
- Equipment & Inventory Purchases	250	-	250	-	250	996	(746)
2.1.3 Emerging Opportunities	6,875	-	6,875	-	6,875	4,308	2,567
2.1.4 Transfer to Alberta Research Council Inc.	26,000	-	26,000	-	26,000	26,000	-
Total Sub-Program	52,472	-	52,472	30,000	82,472	71,288	11,184
2.2 Operations and Policy Implementation							
2.2.1 Innovation Implementation							
- Operating Expense	6,027	-	6,027	-	6,027	6,545	(518)
- Equipment & Inventory Purchases	50	-	50	-	50	17	33
Total Sub-Program	6,077	-	6,077	-	6,077	6,562	(485)
Program Total	58,549	-	58,549	30,000	88,549	77,850	10,699
Program 3 Innovation Capacity							
3.1 Research Capacity							
3.1.1 Alberta Science and Research Investment Program							
- Expense	-	-	-	-	-	7,942	(7,942)
- Expense Funded by Lotteries	22,453	-	22,453	-	22,453	21,118	1,335
3.1.2 Science Awareness							
- Expense	1,500	-	1,500	-	1,500	2,919	(1,419)
- Expense Funded by Lotteries	-	-	-	-	-	-	-
Total Sub-Program	23,953	-	23,953	-	23,953	31,979	(8,026)
3.2 Energy Sector							
3.2.1 Energy Research Strategy							
- Expense	1,192	-	1,192	-	1,192	1,192	-
- Expense Funded by Lotteries	8,530	-	8,530	-	8,530	8,785	(255)
3.2.2 Climate Change							
- Expense Funded by Lotteries	7,000	-	7,000	-	7,000	4,332	2,668
Dedicated Revenue Shortfall (Schedule 2)	-	-	-	-	-	-	-
Total Sub-Program	16,722	-	16,722	-	16,722	14,309	2,413
3.3 Life Sciences Sector							
3.3.1 Life Sciences							
- Expense	-	-	-	-	-	-	-
- Expense Funded by Lotteries	11,635	-	11,635	-	11,635	15,383	(3,748)
Total Sub-Program	11,635	-	11,635	-	11,635	15,383	(3,748)

Comparison of Expenses — Directly Incurred, Equipment/Inventory and Statutory Expenses by Element to Authorized Budget

for the year ended March 31, 2006

Schedule 5

(in thousands)

	2006						
	Estimates	Adjustment [a]	Budget	Authorized Supplementary [b]	Authorized Budget	Actual [c]	Unexpended / (Over Expended)
3.4 Information and Communications Technology (ICT) Sector							
3.4.1 ICT Investments	3,300	-	3,300	-	3,300	3,836	(536)
3.4.2 Transfer to iCORE Inc.							
- Expense	-	-	-	-	-	600	(600)
- Expense Funded by Lotteries	10,620	-	10,620	-	10,620	10,620	-
Total Sub-Program	13,920	-	13,920	-	13,920	15,056	(1,136)
3.5 Operations and Policy Implementation							
3.5.1 Policy and Strategic Planning	1,744	-	1,744	-	1,744	1,817	(73)
3.5.2 Research Division	3,598	-	3,598	-	3,598	3,731	(133)
Total Sub-Program	5,342	-	5,342	-	5,342	5,548	(206)
Program Total	71,572	-	71,572	-	71,572	82,275	(10,703)
Total VOTED EXPENSES AND EQUIPMENT AND INVENTORY PURCHASES	$ 135,267	$ -	$ 135,267	$ 30,000	$ 165,267	$ 164,974	$ 293
Operating Expense	$ 74,729	$ -	$ 74,729	$ 30,000	$ 104,729	$ 103,342	$ 1,387
Operating Expense Funded by Lotteries	60,238	-	60,238	-	60,238	60,238	-
Equipment and Inventory Purchases	300	-	300	-	300	1,394	(1,094)
	135,267	-	135,267	30,000	165,267	164,974	293
Total VOTED EXPENSES AND EQUIPMENT AND INVENTORY PURCHASES	$ 135,267	$ -	$ 135,267	$ 30,000	$ 165,267	$ 164,974	$ 293
STATUTORY EXPENSE							
Valuation Adjustments	$ -	$ -	$ -	$ -	$ -	$ 35	$ (35)
Total STATUTORY EXPENSE	$ -	$ -	$ -	$ -	$ -	$ 35	$ (35)
Total VOTED & STATUTORY EXPENSES AND EQUIPMENT AND INVENTORY PURCHASES	$ 135,267	$ -	$ 135,267	$ 30,000	$ 165,267	$ 165,009	$ 258

(a) Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expense, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.

(b) A Supplementary Estimate was approved on March 16, 2006. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

(c) Achievement bonuses of $423 were incurred during the fiscal year. The bonuses are reported in each program area.

Schedule to Financial Statements
Salary and Benefits Disclosure

for the year ended March 31, 2006

Schedule 6

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Total
Deputy Minister (4)	$ 192,657	$ 32,000	$ 41,166	$ 265,823	$ 224,410
Current Executives:					
Research (5)	148,588	34,287	33,478	216,353	177,123
Policy and Strategic Planning (6)	159,285	33,989	35,532	228,805	175,568
Innovation Implementation (7)	137,276	36,455	32,190	205,921	131,828
Chief Financial Officer (8)	104,512	22,959	25,560	153,031	160,163
Human Resources Director (9)	85,289	7,302	31,138	123,728	131,689

NOTES:

Prepared in accordance with Treasury Board Directive 12/98

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, overtime, and lump sum payments.

(3) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums (estimated), learning account items, professional memberships and tuition fees.

(4) Automobile provided, no dollar amount included in benefits and allowances figures.

(5) Other cash benefits include a vacation payout of $6,596 (2005 - nil).

(6) Other cash benefits include a vacation payout of $14,605 (2005 - $12,295).

(7) Other cash benefits include a vacation payout of $10,817 (2005 - $6,535). Position was vacant for 2 months in the prior year.

(8) Other cash benefits include a vacation payout of $5,496 (2005 - nil). Position occupied by 2 individuals throughout the year. Position vacant for one month of the year.

(9) Position occupied by 2 individuals throughout the year. Position vacant for two months of the year.

Schedule to Financial Statements
Related Party Transactions

for the year ended March 31, 2006

Schedule 7

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2006	2005	2006	2005
REVENUES				
Lottery Fund	$ -	$ -	$ 60,238	$ 69,285
	$ -	$ -	$ 60,238	$ 69,285
EXPENSES - DIRECTLY INCURRED				
Grant to Alberta Government Departments and Agencies	$ -	$ -	$ -	$ 1,179
Grants to Alberta Research Council Inc.	29,113	30,545	-	-
Grants to iCORE Inc.	12,370	10,129	-	-
Charges from Alberta Research Council Inc.	214	275	-	-
Grants to Post Secondary Institutes	-	-	47,540	49,973
Charges from Post Secondary Institutes	-	-	11	16
Grants to Regional Health Authorities	-	-	100	-
Charges from Restructuring & Government Efficiency	-	-	1,449	1,340
Charges from Ministry of Finance	-	-	11	15
Charges from Ministry of Executive Council	-	-	-	52
Charges from Infrastructure & Transportation	-	-	11	15
	$ 41,697	$ 40,949	$ 49,122	$ 52,590
TANGIBLE CAPITAL ASSETS TRANSFERRED TO/FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ -	$ -	$ 996	$ 139
RECEIVABLES DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 5	$ 4	$ -	$ 35
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 760	$ 1,771	$ 1,646	$ 7,747

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 8.

(In thousands)

	Entities in the Ministry		Other Entities	
	2006	2005	2006	2005
EXPENSES - INCURRED BY OTHERS				
Accommodation from Alberta Infrastructure & Transportation	$ -	$ -	$ 280	$ 405
Legal services from Alberta Justice	-	-	224	77
Air Transportation Services/Executive Vehicle from Alberta Infrastructure & Transportation	-	-	11	7
	$ -	$ -	$ 515	$ 489

Schedule to Financial Statements

Allocated Costs

for the year ended March 31, 2006

Schedule 8

(In thousands)

	2006					2005
		Expenses - Incurred by Others		Valuation Adjustments		
	Expenses [1]	Accommodation Costs [2]	Legal Services [3]	Vacation Pay [4]	Total Expenses	Total Expenses
PROGRAM						
Ministry Support Services	$ 4,468	$ 36	$ 28	$ -	$ 4,532	$ 4,424
Innovation Acceleration	76,837	22	25	-	76,884	39,161
Innovation Capacity	82,275	222	171	35	82,703	117,310
Total Expenses	$ 163,580	$ 280	$ 224	$ 35	$ 164,119	$ 160,895

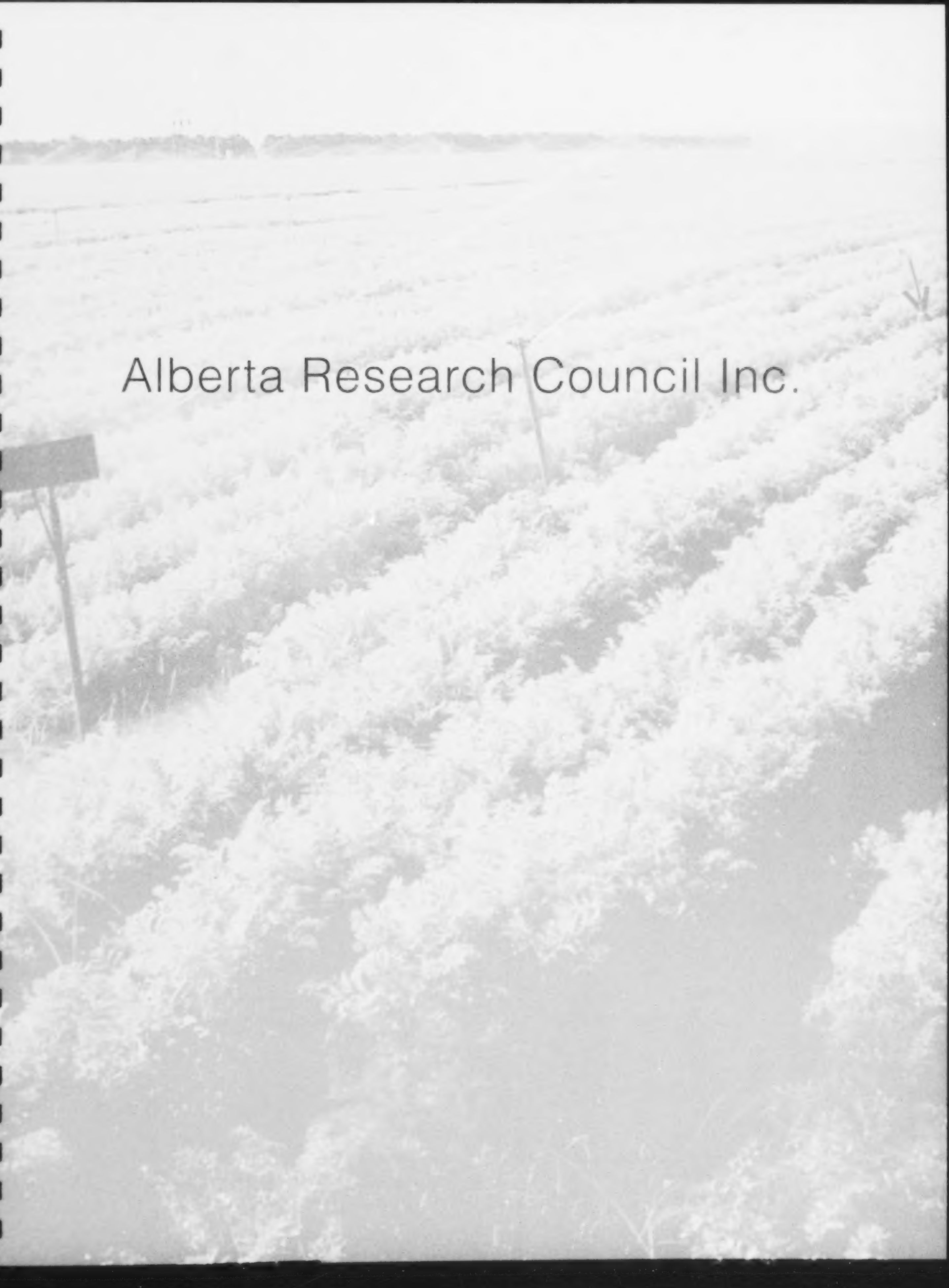
[1] Expenses - Directly Incurred as per the Statement of Operations, excluding valuation adjustments.

[2] Costs shown are for Accommodation provided by Alberta Infrastructure & Transportation.

[3] Costs shown are for Legal Services provided by Alberta Justice.

[4] Valuation Adjustments as per Statement of Operations.

Alberta Research Council Inc.



Alberta Research Council Inc.

Consolidated Financial Statements

for the year ended March 31, 2006

Auditors' Report

Consolidated Balance Sheet

Consolidated Statement of Revenue and Expense and Operating Equity

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

Consolidated Schedule of Allocated Costs

Schedule of Segmented Information

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Directors of the Alberta Research Council Inc.

I have audited the consolidated balance sheet of the Alberta Research Council Inc. as at March 31, 2006 and the consolidated statements of revenue and expense and operating equity and cash flows for the year then ended. These financial statements are the responsibility of the Alberta Research Council Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Alberta Research Council Inc. as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 18, 2006

Consolidated Balance Sheet

as at March 31, 2006

(in thousands of dollars)

	2006	2005
ASSETS		
Current:		
Cash (Note 4)	$ 9,503	$ 10,741
Marketable securities – quoted market value $nil (2005 – $383)	-	170
Accounts receivable (Note 5)	11,911	10,350
Accrued income receivable (Note 8)	3,152	3,261
Construction of Facility (Note 6)	-	1,711
Prepaid expenses	284	492
	24,850	26,725
Long-term:		
Property, plant and equipment (Note 7)	14,492	12,685
	$ 39,342	$ 39,410
LIABILITIES AND EQUITY		
Current:		
Accounts payable and accrued liabilities (Note 8)	$ 13,222	$ 13,989
Unearned contract revenue (Note 8)	7,562	5,710
Current portion of long-term debt (Note 9)	273	447
	21,057	20,146
Long-term:		
Long-term debt (Note 9)	-	273
	21,057	20,419
Contingencies (Note 10)		
Commitments (Note 11)		
Equity:		
Operating	18,285	18,991
	$ 39,342	$ 39,410

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

LeRoy Johnson, M.L.A.
Wetaskiwin-Camrose
Chair, Board of Directors

Jim Carter
Chair, ARC Audit Committee

Alberta Research Council Inc.

Consolidated Statement of Revenue and Expense and Operating Equity

for the year ended March 31, 2006

(in thousands of dollars)

	2006		2005
	Budget (Note 17)	Actual (Schedule 1)	Actual
REVENUE			
Investment from the Province of Alberta:			
General revenues (Note 8)	$ 26,000	$ 26,000	$ 27,277
Contract revenue (Note 14):			
Commercial (Note 6)	30,885	33,567	28,544
Alberta government departments and agencies (Note 8)	6,767	5,967	4,941
Royalties, licensing fees and product sales	2,753	2,421	4,023
Interest income	500	520	485
	$ 66,905	$ 68,475	$ 65,270
EXPENSE			
Salaries, wages and benefits (Note 8)	42,523	42,700	40,051
Professional, technical and labour services (Notes 8 and 13)	6,499	8,039	7,675
Materials and supplies	4,484	3,982	4,137
Other expenses (Note 8)	2,577	2,304	2,277
Travel and hospitality	2,327	1,890	1,909
Amortization	1,778	1,779	1,527
Computing supplies and services	1,562	1,648	1,741
Legal and patent	1,263	1,095	1,162
Maintenance and rental	564	480	352
Insurance (Note 8)	473	456	466
Telephone	542	417	423
Provision for impairment of equipment	-	318	-
Royalty expense	132	32	563
Interest	26	26	49
Provision for impairment of marketable securities	-	(41)	557
Gain on sale of equipment	-	(322)	(70)
	64,750	64,803	62,819
Net earnings for the year from continuing operations	2,155	3,672	2,451
Net loss from discontinued operations (Note 3)	-	-	(5,120)
Net earnings (loss) for the year	2,155	3,672	(2,669)
Operating equity at beginning of year	18,991	18,991	21,660
Transfer of Facility (Note 6)	(4,795)	(4,378)	-
Operating equity at end of year	$ 16,351	$ 18,285	$ 18,991

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended March 31, 2006

(in thousands of dollars)

	2006	2005
CASH PROVIDED BY (USED IN)		
Operating activities:		
Net earnings for the year from continuing operations	$ 3,672	$ 2,451
Amortization	1,779	1,527
Gain on sale of marketable securities	(138)	(578)
Purchase of marketable securities	-	(212)
Proceeds on sale of marketable securities	349	838
Provision for impairment of marketable securities	(41)	557
Provision for impairment of equipment	318	-
Gain on sale of equipment	(322)	(70)
Net change in non-cash balances (Note 12)	(159)	1,871
Net cash provided by operating activities of continuing operations	5,458	6,384
Net loss for the year from discontinued operations (Note 3)	-	(5,120)
Write-down of equipment and leasehold improvements	-	4,591
Amortization	-	889
Gain on disposal of property, plant and equipment	-	(25)
Net cash provided by (used by) operating activities of discontinued operations	-	335
Net cash provided by operating activities	5,458	6,719
Investing activities:		
Purchases of property, plant and equipment	(4,017)	(3,027)
Purchases for construction of facility (Note 6)	(2,667)	(1,711)
Proceeds on disposal of property, plant and equipment	435	93
Net cash used by investing activities	(6,249)	(4,645)
Financing activities:		
Repayment of long-term debt	(447)	(424)
(Decrease) increase in cash	(1,238)	1,650
Cash at beginning of year	10,741	9,091
Cash at end of year	$ 9,503	$ 10,741
Supplementary cash flow information:		
Interest paid	$ 26	$ 49
Interest received	$ 520	$ 485

The accompanying notes are an integral part of these financial statements.

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Note 1 Authority and Purpose

The Alberta Research Council Inc. is incorporated under the Alberta Business Corporations Act (Alberta).

Effective April 1, 2005, the Alberta Research Council Inc. ("Research Council") is a subsidiary of the Ministry of Innovation and Science of the Province of Alberta. The Ministry of Innovation and Science and its wholly owned subsidiaries are exempt from the payment of income tax under Section 149 of the Income Tax Act.

The mission of the Research Council is to develop and help deploy innovative science and technology solutions for the benefit of Alberta.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Research Council and its wholly owned subsidiary, C-FER Technologies (1999) Inc.

(b) Marketable Securities

Shares of public companies are recorded at the lower of cost and market value.

(c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Building	Thirty years
Leasehold improvements	Twenty-five years
Equipment	Five to twenty years
Furniture and fixtures	Five years
Computer equipment and software	Three years

(d) Patents and Other Intangible Assets

Expenses incurred related to patents owned by the Research Council as a result of research activity are not capitalized due to the uncertain value of benefits which may accrue to the Research Council.

Expenses incurred on the development of other intangible assets including intellectual capital are not capitalized as there currently is not an acceptable methodology for measuring the value of future benefits accruing to the Research Council.

(e) Revenue Recognition

General revenues received from the Province of Alberta are recognized as revenue in the year approved.

Contract revenue is recognized as costs are incurred, up to the contract maximum and in accordance with contracted cost-sharing ratios. Revenue from C-FER contracts is recognized using the percentage of completion method. The Research Council makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties and licensing fees are recognized as they accrue in accordance with the relevant agreements and when the amount can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Revenue from product sales is recognized when products are delivered.

(f) Expenses Incurred by Others

Services contributed by other entities in support of the Research Council's operations have not been recorded in the financial statements and are disclosed in Schedule 1.

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

(g) Pension Plans

The Research Council participates in multi-employer pension plans with related government entities. Pension costs included in these financial statements are comprised of the cost of employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

(h) Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Fair value is generally determined using a discounted cash flow analysis.

(i) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at March 31, 2006 and 2005, the Research Council does not have any asset retirement obligations.

Note 3 Discontinued Operations

Effective March 31, 2005, the operations of the Biologics business unit were closed. The results of the Biologics business unit have been presented as discontinued operations in the financial statements.

	2006	2005
Net loss from Biologics operations	$ -	$ 529
Severance	-	585
Investment from Province of Alberta	-	(585)
Write-down of equipment and leasehold improvements	-	4,591
	$ -	$ 5,120

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Note 4 Cash

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta. The CCITF is managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term securities with a maximum term to maturity under three years. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates. The average rate of interest earned on cash balances in the year was 2.84% (2005 – 2.39%). Cash of $843,000 (2005 – $269,000) is held in trust for use in a Canadian International Development Agency ("CIDA") project.

Note 5 Accounts Receivable

	2006	2005
Commercial	$ 9,971	$ 8,111
Alberta government departments and agencies (Note 8)	1,940	2,239
	$ 11,911	$ 10,350

Commercial accounts receivable are recorded net of $751,000 (2005 – $547,000) of allowance for doubtful accounts.

Note 6 Construction of Facility

During 2005, the Research Council began construction of a new Agriculture Fibre Processing Facility at the Mill Woods building. This facility was completed during 2006 at a total cost of $4,378,000. The total costs incurred during 2006 were $2,667,000 (2005 – $1,711,000).

Ownership of the facility has been transferred to the Ministry of Alberta Infrastructure and Transportation through a charge against equity in the current fiscal year.

The Research Council has entered into an agreement with Western Economic Diversification for a total of $1,448,000 towards the cost of the facility. For the year ended March 31, 2006, the Research Council has recognized $864,000 (2005 – $584,000) as commercial revenue.

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Note 7 Property, Plant and Equipment

	2006			2005
	Cost	Accumulated Amortization	Net	Net
Land	$ 566	$ -	$ 566	$ 566
Building	2,142	508	1,634	1,678
Leasehold improvements	974	406	568	611
Equipment	36,431	25,019	11,412 (1)	9,663
Furniture and fixtures	126	105	21	26
Computer equipment and software	1,767	1,476	291	141
	$ 42,006	$ 27,514	$ 14,492	$ 12,685

(1) The Research Council has entered into two agreements with Western Economic Diversification and will receive $600,000 toward the cost of equipment. This revenue is recognized into income through commercial revenue over the useful life of the asset. For the year ended March 31, 2006, the Research Council has not recognized any revenue as the assets are not yet in use.

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Note 8 Related Party Transactions

The following tables summarize the Research Council's related party transactions for the year:

Revenues

Related Party	Relationship	Transaction	2006	2005
Innovation and science[1]	Ministry	Investment Revenue	$ 26,000	$ 27,862
Innovation and science	Ministry	Contract Revenue	3,913	3,556
Agriculture, food and rural development	Ministry	Contract Revenue	221	289
Community development	Ministry	Contract Revenue	8	-
Economic development	Ministry	Contract Revenue	3	(3)
Energy	Ministry	Contract Revenue	22	-
Environment	Ministry	Contract Revenue	1,704	864
Finance	Ministry	Contract Revenue	5	2
Gaming	Ministry	Contract Revenue	2	6
Health and wellness	Ministry	Contract Revenue	28	44
Infrastructure and transportation	Ministry	Contract Revenue	15	141
Restructuring and government efficiency	Ministry	Contract Revenue	1	-
Sustainable resource development	Ministry	Contract Revenue	45	42
			$ 31,967	$ 32,803

[1] The 2005 Investment revenue includes $585,000 that is included in Discontinued Operations as shown in Note 3.

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Expenses

Related Party	Relationship	Transaction	2006	2005
Innovation and science	Ministry	IMAGIS System	$ 380	$ 380
Agriculture, food and rural development	Ministry	Consulting	5	5
Environment	Ministry	Services	-	5
Finance	Ministry	Insurance	108	114
Infrastructure and transportation	Ministry	Parking	62	87
Infrastructure and transportation	Ministry	Consulting	-	8
Restructuring and government efficiency	Ministry	Postage	21	30
			$ 576	$ 629

Included in accounts receivable are the following related party transactions:

Related Party	Relationship	2006	2005
Agriculture, food and rural development	Ministry	$ 179	$ 139
Community development	Ministry	10	-
Innovation and science	Ministry	1,205	1,610
Environment	Ministry	536	434
Health and wellness	Ministry	2	-
Infrastructure and transportation	Ministry	5	55
Finance	Ministry	3	1
		$ 1,940	$ 2,239

Included in accounts payable is the following related party transaction:

Related Party	Relationship	2006	2005
Finance	Ministry	$ 3	$ 4

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Included in unearned contract revenue are the following related party transactions:

Related Party	Relationship	2006	2005
Agriculture, food and rural development	Ministry	$ 72	$ 14
Economic development	Ministry	-	3
Environment	Ministry	166	80
Finance	Ministry	3	-
Health and wellness	Ministry	-	10
Innovation and science	Ministry	450	1,012
Sustainable resource development	Ministry	46	-
		$ 737	$ 1,119

Included in accrued income receivable are the following related party transactions:

Related Party	Relationship	2006	2005
Agriculture, food and rural development	Ministry	$ -	$ 75
Innovation and science	Ministry	184	47
		$ 184	$ 122

Accommodation costs

The premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost (see Schedule 1).

(all tabular amounts in thousands of dollars)

Note 9 Long-term Debt

	2006	2005
5.37% mortgage, due October 2006, payable in monthly instalments of $39,376 including interest	$ 273	$ 720
Less: Current portion	273	447
	$ -	$ 273

A demand debenture with a fixed charge over land, building and equipment with a net book value of $3,206,000 (2005 – $3,242,000), a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future has been pledged as collateral for the mortgage.

Note 10 Contingencies

(a) During fiscal 2000, the Research Council was made aware of a $2,200,000 claim relating to intellectual property ownership, which was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss is not determinable at this time. Any settlement that may occur would be accounted for as a charge against earnings in the year of settlement.

(b) The Research Council is aware of a contractual dispute with a former project partner. Any settlement that may occur would be accounted for as a charge against earnings in the year of settlement.

(all tabular amounts in thousands of dollars)

Note 11 Commitments

Future minimum lease payments for office equipment and vehicles over the next four years and in total are as follows:

Year ending March 31, 2007	$ 141
2008	110
2009	90
2010	33
	$ 374

Note 12 Net Change in Non-Cash Balances

	2006	2005
Accounts receivable	$ (1,561)	$ (1,617)
Accrued income receivable	109	(869)
Inventory	-	130
Prepaid expenses	208	(325)
Accounts payable and accrued liabilities	(767)	3,724
Unearned contract revenue	1,852	828
	$ (159)	$ 1,871

Note 13 Pension Plan

The Research Council participates in two multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan, as well as a Defined Contribution Plan. The expense for these pension plans is equivalent to the annual contributions of $2,506,000 for the year ending March 31, 2006 (2005 – $2,208,000).

Note 14 Contract Revenue

During the year, the Research Council provided $nil (2005 – $147,000) of services in exchange for shares and warrants of public companies. The services were measured at the cost incurred.

for the year ended March 31, 2006

Note 15 Board of Directors and Senior Executive Salaries and Benefits

	2006				2005
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chair of the Board[4]	$ -	$ -	$ -	$ -	$ -
Board Members	-	14,486	-	14,486	9,961
Chief Executive Officer	190,020	55,000	60,944	305,964	283,560
Executive/Vice Presidents					
Chief Financial Officer	129,264	15,000	31,975	176,239	155,454
Associate Vice-President, Human Resources[5]	115,548	7,000	34,981	157,529	57,035
Vice-President, Energy	178,008	30,000	30,087	238,095	216,263
Vice-President, Engineered Products and Services	120,648	22,500	26,464	169,612	134,573
Vice-President, External Relations & Alliances	114,864	10,000	20,163	145,027	131,349
Vice-President, Integrated Resource Management	120,508	15,000	26,413	161,921	195,667
Vice-President, Life Sciences	189,216	25,000	37,664	251,880	209,539
Vice-President, New Ventures	156,096	15,000	26,548	197,644	189,901

(1) Base salary includes regular base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

(3) Benefits and allowances includes the employer's share of the cost of pension, Canada Pension Plan, Employment Insurance, dental, major medical, basic life insurance, short and long-term disability, employee health care expense accounts and vacation accrual. It also includes car allowance, payments made in lieu of benefits and membership fees.

(4) Remuneration of the Chair of the Board was paid by Innovation and Science.

(5) Associate Vice-President, Human Resources position started November 1, 2004.

Consolidated Notes to Financial Statements

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Note 16 Financial Instruments

Financial instruments consist of accounts receivable, accrued income receivable, marketable securities and long-term investments which will result in future cash receipts as well as accounts payable and accrued liabilities and long-term debt which will result in future cash outlays.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties, matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of accounts receivable, accrued income receivable, accounts payable and accrued liabilities approximate the carrying values due to their short-terms to maturity. The fair value of the marketable securities is their market value as disclosed on the balance sheet.

The fair value of long-term debt approximates its carrying value due to the fact that the interest rates approximate the market rate at March 31, 2006.

The Research Council is exposed to normal credit risk with respect to its commercial sales. However, this is minimized by the Research Council's program of credit evaluation of new customers. Provisions are maintained for potential credit losses, and any such losses to date have been within management's expectations. The Research Council is not exposed to significant credit risk from any one customer.

Options and Warrants

As part of the consideration for granting various licenses, the Research Council will sometimes receive options and warrants to acquire common shares of public companies. The Research Council is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 17 Budget

The 2006 budget was approved by the Board of Directors on March 30, 2005.

Note 18 Comparative Figures

The comparative figures have been reclassified where necessary to conform with current year presentation.

Consolidated Schedule of Allocated Costs(1)

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Schedule 1

	2006			2005
		Expenses Incurred by Others		
	Expense(2)	Accommodation Costs(3)	Total Expenses	Total Expenses
Total Expense	$ 64,803	$ 15,526	$ 80,329	$ 77,212

(1) If these allocated costs were paid for by the Research Council, the Province's contribution to the Research Council would be increased by $15,526,000 making total revenue for 2006 $84,001,000. Net profit for 2006 would have remained at $3,672,000.

(2) Expenses as per Consolidated Statement of Revenue and Expense and Operating Equity.

(3) Accommodation costs, including premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost. The Province's costs to provide this support are as follows:

	2006	2005
Accommodation cost:		
Building maintenance	$ 8,829	$ 7,707
Grants in lieu of taxes	1,821	1,827
Lease costs	1,964	1,935
Project expenses	-	17
Amortization	2,912	2,907
	$ 15,526	$ 14,393

Schedule of Segmented Information

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Schedule 2

The Research Council has five reportable segments: energy, integrated resource management, engineered products and services, life sciences and corporate/commercialization. These segments represent the company's management structure and internal financial reporting.

The Research Council derives revenue through technology development, demonstration and deployment work, conducted within these units. Energy develops and helps industry deploy technologies that improve recovery and reduce the production costs for hydrocarbon, cleaner and alternative energy technologies. Integrated Resource Management brings industry, government and communities together to create innovative science and technology solutions that enrich life with environmental, economic and social benefits. Engineered Products and Services develop and deploy value-added bio-based products and processes. Life Sciences provides the expertise required by Alberta bio-industry SMEs for product, process and scale-up development, supplemented with external resources as required.

Corporate/commercialization includes general and administrative expenses that are not allocated to specific segments. Revenues include interest, royalty and other revenues that have not been allocated to specific segments.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 2 except for subsection (f) Expenses Incurred by Others. The Research Council allocates these expenses across the segments based on the market value of the services received by each segment. The Research Council evaluates performance based on operating surplus or deficit before extraordinary items and discontinued operations.

Financial information by reportable segment for the years ended March 31, 2006 and 2005 is as follows (in thousands of dollars):

i) Operating results by operating segment:

	2006					
	Energy	Integrated Resource Management	Engineered Products & Services	Life Sciences	Corporate/ commercial-ization	Total
External revenue	$ 22,184	$ 8,032	$ 6,538	$ 2,929	$ 2,792	$ 42,475
Draw on Provincial investment Funds	4,367	4,893	4,712	3,668	8,360	26,000
	$ 26,551	$ 12,925	$ 11,250	$ 6,597	$ 11,152	$ 68,475
Amortization of segment assets	$ 609	$ 411	$ 438	$ 77	$ 244	$ 1,779
Segment earnings (loss)	$ 2,286	$ 603	$ 680	$ 356	$ (253)	$ 3,672

Schedule of Segmented Information

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Schedule 2 - continued

	2005					
	Energy	Integrated Resource Management	Engineered Products & Services	Life Sciences	Corporate/ commercial-ization	Total
External revenue	$ 21,111	$ 5,303	$ 5,191	$ 1,798	$ 4,590	$ 37,993
Draw on Provincial investment Funds	4,449	5,393	5,650	3,731	8,054	27,277
	$ 25,560	$ 10,696	$ 10,841	$ 5,529	$ 12,644	$ 65,270
Amortization of segment assets	$ 547	$ 369	$ 514	$ 65	$ 32	$ 1,527
Segment earnings (loss)	$ 2,147	$ (163)	$ 728	$ 246	$ (507)	$ 2,451

ii) Segment operating assets:

	2006					
	Energy	Integrated Resource Management	Engineered Products & Services	Life Sciences	Corporate/ commercial-ization	Total
Segment assets purchased during the year	$ 910	$ 691	$ 1,775	$ 486	$ 155	$ 4,017
Total segment assets	$ 5,867	$ 2,369	$ 3,754	$ 1,681	$ 821	$ 14,492

	2005					
	Energy	Integrated Resource Management	Engineered Products & Services	Life Sciences	Corporate/ commercial-ization	Total
Segment assets purchased during the year	$ 1,317	$ 714	$ 511	$ 283	$ 202	$ 3,027
Total segment assets	$ 5,921	$ 2,089	$ 2,607	$ 1,675	$ 393	$ 12,685

Schedule of Segmented Information

for the year ended March 31, 2006

(all tabular amounts in thousands of dollars)

Schedule 2 - continued

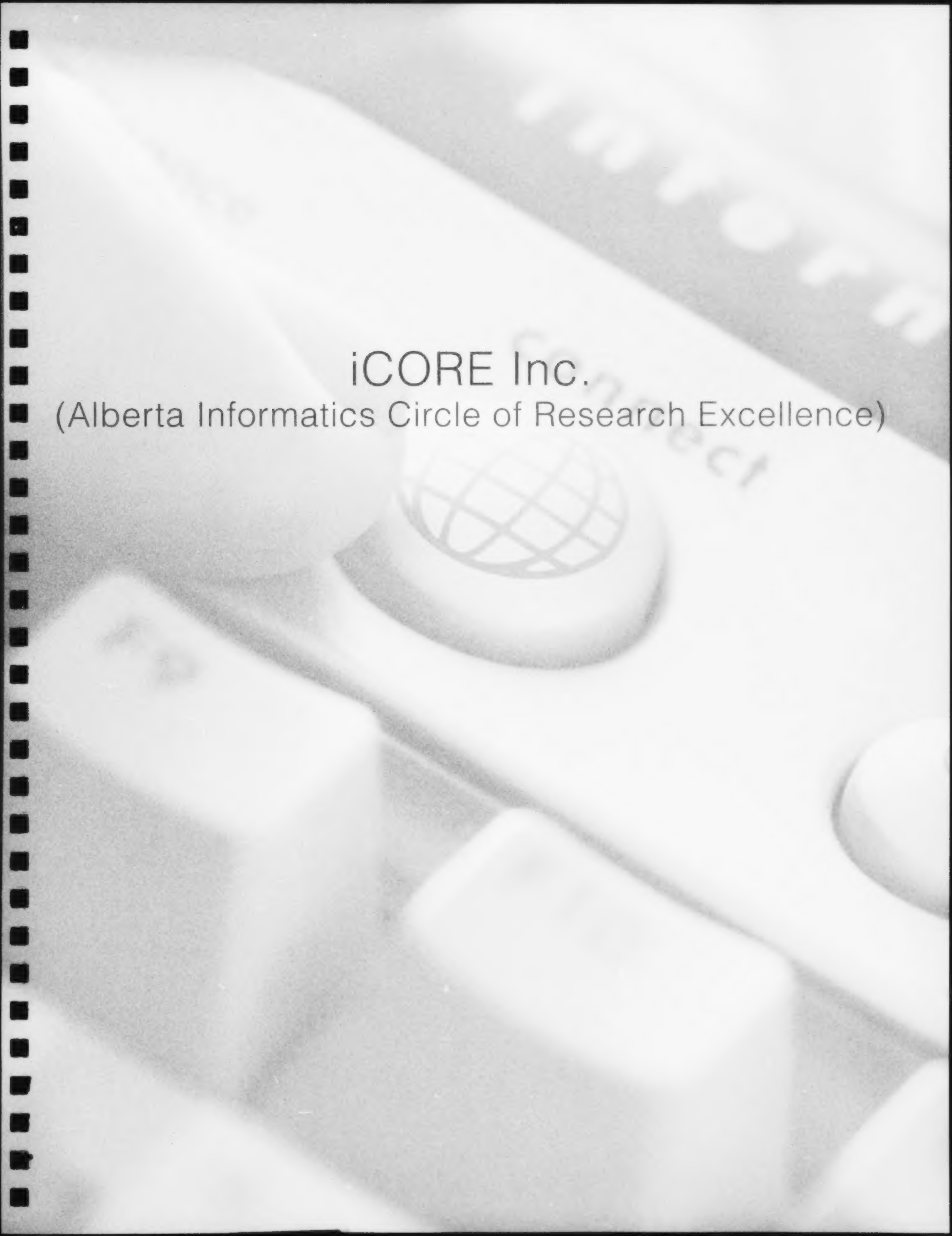
C-FER Technologies (1999) Inc.

C-FER Technologies (1999) Inc. ("C-FER") is a wholly owned subsidiary of the Research Council and is included within the Energy Segment presented above. Separate financial statements are not provided for C-FER as its business is closely integrated with that of the Research Council and disclosure in these statements is considered adequate. The following aggregate amounts are included in these consolidated financial statements in respect of C-FER's financial position, results of operations and cash flows:

	2006	2005
Balance Sheet		
Current assets	$ 3,710	$ 2,764
Property, plant and equipment	3,206	3,242
Current liabilities	5,291	4,678
Statement of Operations		
Total revenue	7,917	7,020
Total expenses	7,347	6,935
Net earnings from operations	570	85
Statement of Cash Flows		
Cash provided by (used) by operating activities	1,145	(449)
Cash used in investing activities	(138)	(244)

iCORE Inc.

(Alberta Informatics Circle of Research Excellence)



iCORE Inc.

Financial Statements

for the year ended March 31, 2006

Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Board of Directors and Senior Executive Salaries and Benefits

Schedule of Related Party Transactions

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Directors of iCORE Inc.

I have audited the statement of financial position of iCORE Inc. as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of iCORE Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of iCORE Inc. as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 5, 2006

Statement of Operations

for the year ended March 31, 2006

(in thousands)

	2006 Budget	2006 Actual	2005 Actual
Revenues			
Internal Government Transfers (Note 2)	$ 10,620	$ 12,370	$ 10,129
Other Revenue	-	67	77
	10,620	12,437	10,206
Expenses - Directly Incurred			
Research Grants (Note 2)	9,450	10,489	7,024
Graduate Student Grants (Note 5)	-	579	1,988
Salaries, Wages and Employee Benefits	560	590	565
Communications	350	499	444
Supplies and Services	260	254	179
	10,620	12,412	10,200
Net Operating Results	$ -	$ 25	$ 6

The accompanying notes and schedules are part of these financial statements.

Statement of Financial Position

as at March 31, 2006

	(in thousands) 2006	2005
ASSETS		
Cash	$ 106	$ 746
Accounts Receivable	-	9
	$ 106	$ 755
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 79	$ 753
	79	753
CONTRACTUAL OBLIGATIONS (Note 3)		
NET ASSETS		
Net Assets (Net Liabilities) at Beginning of Year	2	(4)
Net Operating Results	25	6
Net Assets at End of Year	27	2
	$ 106	$ 755

The accompanying notes and schedules are part of these financial statements.

Approved by the Board of Directors

Seamus J O'Shea

Dr. Seamus O'Shea
Chair of the Board
iCORE Inc.

Peter C Fly

Dr. Peter Flynn
Chair of the iCORE Audit Committee
iCORE Inc.

Statement of Cash Flows

for the year ended March 31, 2006

	(in thousands) 2006	2005
CASH PROVIDED BY (USED IN)		
Operating Transactions		
Net Operating Results	$ 25	$ 6
Decrease (Increase) in Accounts Receivable	9	(9)
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(674)	650
Cash from Operating Transactions	(640)	647
(Decrease) Increase in Cash	(640)	647
Cash, Beginning of Year	746	99
Cash, End of Year	$ 106	$ 746

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

for the year ended March 31, 2006

NOTE 1 AUTHORITY AND PURPOSE

iCORE Inc. is incorporated under the Alberta Business Corporations Act (Alberta).

Effective April 1, 2005, iCORE Inc. is a subsidiary of the Ministry of Innovation and Science of the Province of Alberta. The Ministry of Innovation and Science and its wholly owned subsidiaries are exempt from the payment of income tax under Section 149 of the Income Tax Act.

The mandate of iCORE Inc. is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE Inc. invests in the highest calibre research scientists and leaders who work on fundamental and applied problems in information and communications technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The precise determination of many assets and liabilities is dependent on future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below which have been established by government for Provincial Corporations.

(a) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Notes to the Financial Statements

for the year ended March 31, 2006

Expenses

Directly Incurred

Directly incurred expenses are those costs iCORE Inc. has primary responsibility and accountability for, as reflected in the Government's budget documents.

Grants are recognized when authorized and eligibility criteria are met.

Incurred by Others

Services contributed by other entities in support of iCORE Inc. operations are disclosed in Schedule 2.

Assets

Financial assets of iCORE Inc. are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The threshold for capitalizing new systems development is $100,000 and the threshold for all other tangible capital assets is $5,000 (2005 - $5,000).

Liabilities

Liabilities represent all financial claims payable by iCORE Inc. at fiscal year end.

Net Assets/Net Liabilities

Net assets/net liabilities represents the difference between the carrying value of assets held by iCORE Inc. and its liabilities.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

NOTE 3 CONTRACTUAL OBLIGATIONS

	(in thousands) 2006	(in thousands) 2005
Grant agreements	$ 18,761	$ 11,811

The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Grant Agreements
2007	$ 5,813
2008	5,669
2009	4,429
2010	2,850
Thereafter	-
	$ 18,761

NOTE 4 TRANSFER OF OWNERSHIP

As approved by the iCORE Board of Directors, the Alberta Science and Research Authority (ASRA), and the Government of Alberta via Order in Council 103/2005, all shares in iCORE Inc. were transferred from ASRA to the Ministry of Innovation and Science, effective April 1, 2005.

NOTE 5 CHANGES IN GRANT PROGRAMS

During fiscal 2004-2005 the Graduate students grant program was funded and managed by iCORE Inc. For the 2005-2006 fiscal year, $2,000,000 for the program was funded by the Ministry of Advanced Education and $579,286 was funded by iCORE Inc. iCORE continued to manage the program. The funding provided by the Ministry of Advanced Education is not reflected in these financial statements.

NOTE 6 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Board of Directors and Senior Executive Salaries and Benefits

for the year ended March 31, 2006

Schedule 1

	2006			2005
	Base Salary(2)	Other Benefits(3)	Total	Total
Chair of the Board(1)	$ 12,422	$ -	$ 12,422	$ 20,182
President and Chief Executive Officer(4)	246,432	-	246,432	202,316
Vice President, Programs	97,241	32,552	129,792	124,419

Prepared in accordance with Treasury Board Directive 03/2004.

(1) Board members receive no compensation.

(2) Base salary includes regular base pay.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including retirement savings plan, health care, dental coverage, vision coverage and professional development allowance.

(4) The salary amount (including benefits paid by the University) for the President and Chief Executive Officer, whose term started January 1, 2005 is $246,432 paid to the University of Alberta for 100% secondment.

The position was occupied by two individuals in the 2005 year. The salary amount (including benefits paid by the University) for the former President and Chief Executive Officer, whose term ended December 31, 2004, was comprised of $79,163 paid to the University of Calgary for 80% secondment and $60,000 for consulting services. The salary amount (including benefits paid by the University) for the new President and Chief Executive Officer, whose term started January 1, 2005 was $63,153 paid to the University of Alberta for 100% secondment.

Related Party Transactions

for the year ended March 31, 2006

Schedule 2

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in iCORE Inc.

iCORE Inc. and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

iCORE Inc. had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

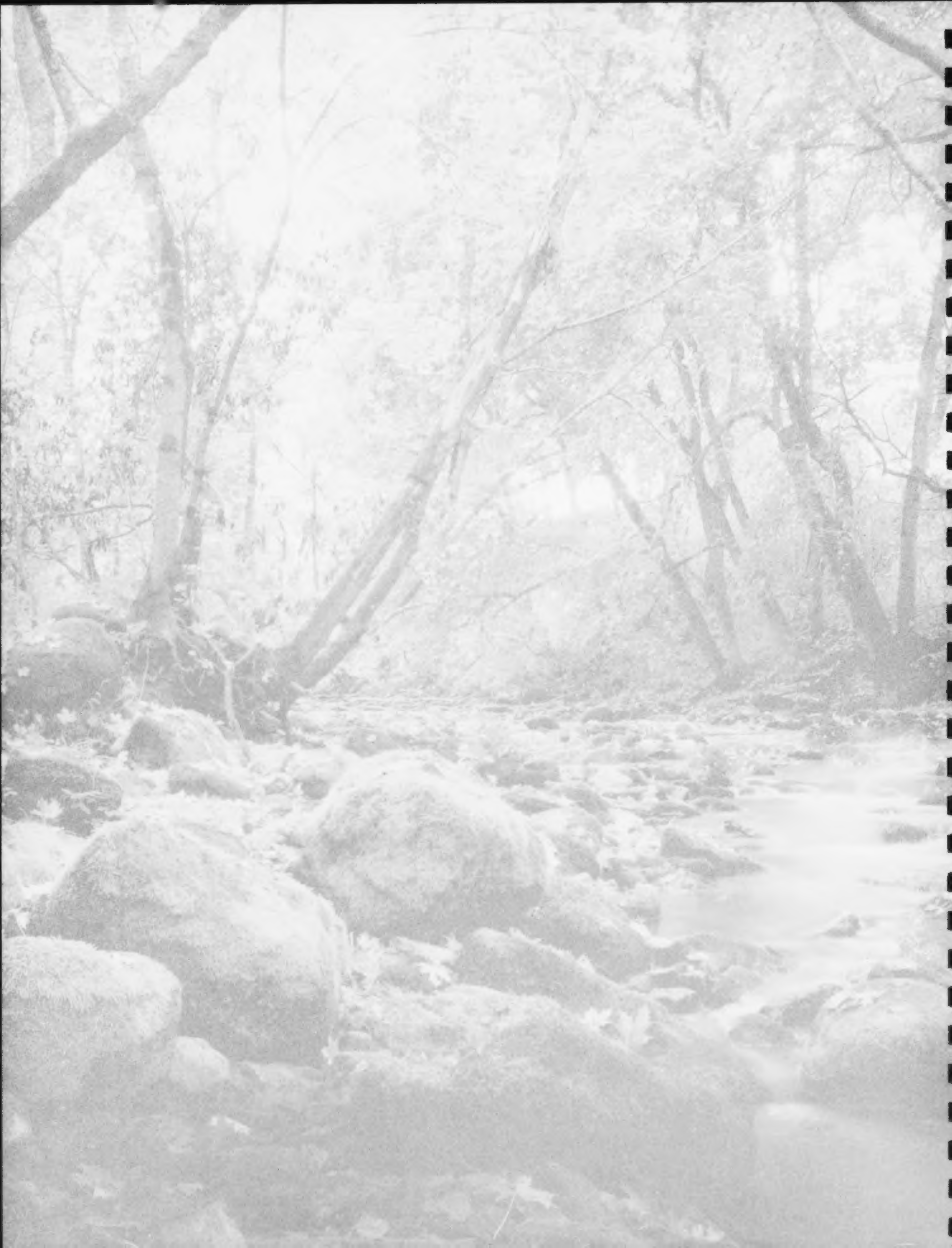
(in thousands)

	Entities in the Ministry		Other Entities	
	2006	2005	2006	2005
Revenues – Internal Government Transfers				
Grant from Department of Innovation and Science	$ 12,370	$ 10,129	$ -	$ -
	$ 12,370	$ 10,129	$ -	$ -
Expenses – Directly Incurred				
Grant Payments to Ministry of Advanced Education – Post-Secondary Institutions	$ -	$ -	$ 10,971	$ 8,289
Payables to Alberta Government Departments and Agencies	-	-	-	697
Payments to Alberta Research Council Inc.	10	8	-	-
	$ 10	$ 8	$ 10,971	$ 8,986

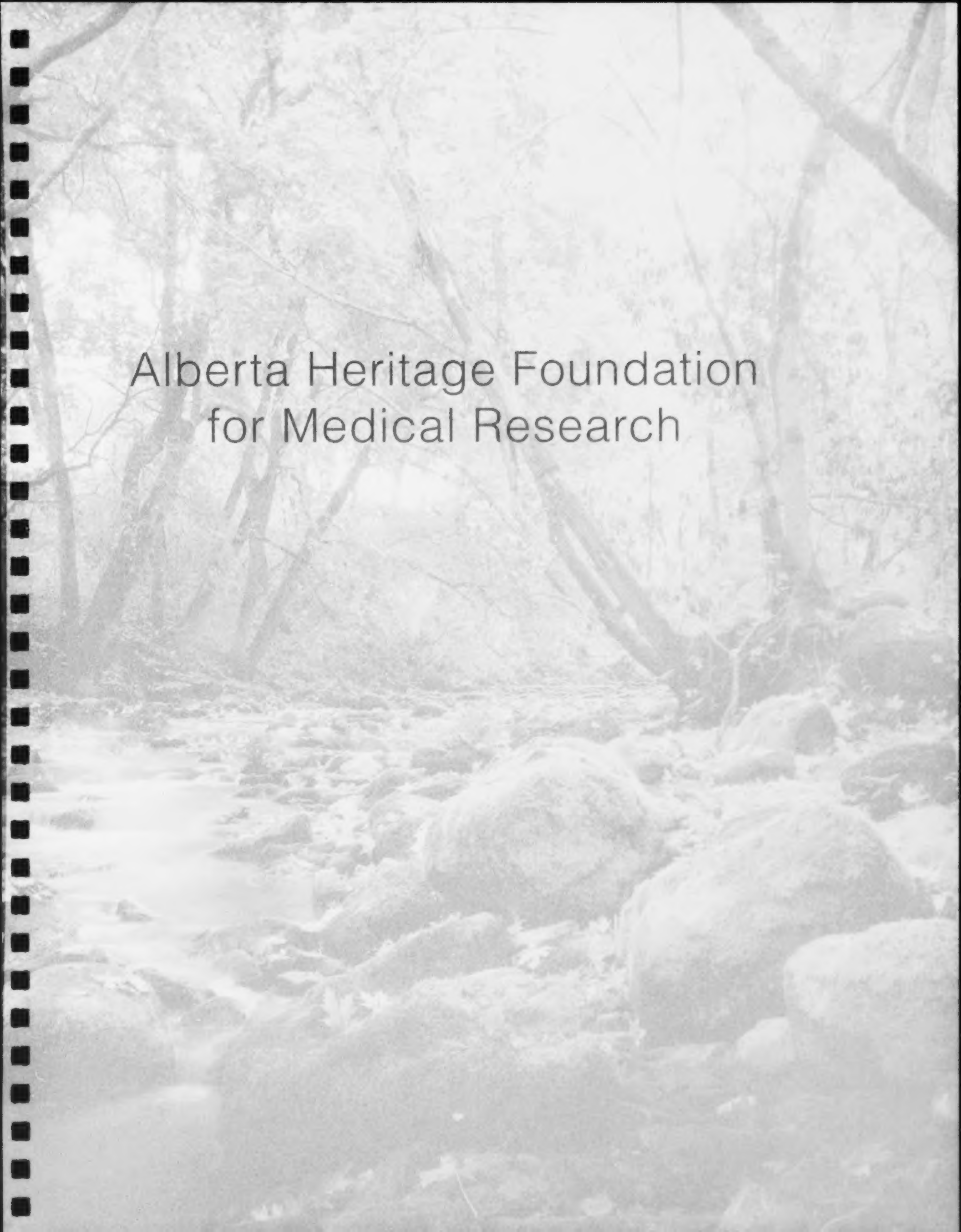
iCORE Inc. also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(in thousands)

	Entities in the Ministry		Other Entities	
	2006	2005	2006	2005
Expenses – Incurred by Others				
Accommodation from the Province of Alberta	$ 39	$ 38	$ -	$ -



Alberta Heritage Foundation for Medical Research



Consolidated Financial Statements

for the year ended March 31, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Trustees of the Alberta Heritage Foundation for Medical Research

I have audited the consolidated statement of financial position of the Alberta Heritage Foundation for Medical Research as at March 31, 2006 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 6, 2006

Consolidated Statement of Financial Position

as at March 31, 2006

(thousands of dollars)

	2006	2005
Assets		
Current		
Cash (Note 3)	$ 8,529	$ 9,833
Accounts receivable	134	316
Accounts receivable-employee loan (Note 14)	25	-
Advances and prepaid expenses	95	100
	8,783	10,249
Long-Term		
Property, plant and equipment (Note 5)	370	339
Employee Loan (Note 14)	175	200
	545	539
Total Assets	$ 9,328	$ 10,788
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 1,705	$ 1,344
Deferred contributions (Note 8)	7,182	8,065
	8,887	9,409
Long-Term		
Accrued retirement allowance (Note 7)	961	619
Accrued registered pension liability (Note 6)	20	80
Deferred lease inducement	13	-
	994	699
Total Liabilities	9,881	10,108
Net (Liabilities) Assets (Note 9)	(553)	680
	$ 9,328	$ 10,788

The accompanying notes are part of these financial statements.

Approved by the Board:

Gail Surkan
Trustee

R J Haskayne

Richard Haskayne
Trustee

Consolidated Statement of Operations

for the year ended March 31, 2006

(thousands of dollars)	2006	2005
Revenues		
Transfers from Endowment Fund (Note 4)	$ 50,000	$ 50,000
Health Research Collaboration (Note 8)	6,677	4,562
Canadian Nurses Foundation	17	-
Health Quality Council of Alberta	38	-
Donations	3	2
Interest	471	166
Recoveries on Technology Commercialization (Note 10)	128	161
Unspent Grant Returns (Note 15)	-	633
Other Revenues (Note 16)	105	6
	57,439	55,530
Expenses		
Grants and awards		
Personnel	28,851	28,900
Training	6,283	6,330
Technology commercialization	1,591	1,385
Applied health research	3,543	2,300
Challenge offer (Note 18)	6,000	4,000
SEARCH Canada (Note 17)	2,270	-
Other	2,883	2,428
	51,421	45,343
Program Delivery		
HYRS program	131	137
Technology commercialization	189	148
Health technology assessment	809	767
Applied health research programs	435	2,383
	1,564	3,435
Operations		
Program planning	345	247
Peer review	946	1,016
Communications and education	1,353	899
Evaluation, analysis and information services	402	162
Administration	2,641	2,538
	5,687	4,862
Total Expenses	58,672	53,640
(Deficiency) excess of revenues over expenses	$ (1,233)	$ 1,890

Consolidated Statement of Changes in Net Assets

for the year ended March 31, 2006

(thousands of dollars)

	2006			2005
	Invested in Property, Plant and Equipment	Unrestricted	Total	Total
Balance at beginning of year	$ 339	$ 341	$ 680	$ (1,210)
(Deficiency) excess of revenues over expenses	-	(1,233)	(1,233)	1,890
Purchase of property, plant and equipment	185	(185)	-	-
Proceeds from disposal of property, plant and equipment	(10)	10	-	-
Loss on disposal of property, plant and equipment	(5)	5	-	-
Amortization of property, plant and equipment	(139)	139	-	-
Balance at end of year	$ 370	$ (923)	$ (553)	$ 680

Consolidated Statement of Cash Flows

for the year ended March 31, 2006

(thousands of dollars)

	2006	2005
Operating activities		
(Deficiency) excess of revenues over expenses	$ (1,233)	$ 1,890
Amortization of property, plant and equipment	139	240
Loss on sale of property, plant and equipment	5	7
	(1,089)	2,137
Change in non-cash operating working capital		
Accounts receivable	195	(222)
Employee loan received (advanced)	-	(200)
Advances and prepaid expenses	5	148
Accounts payable and accrued liabilities	361	(925)
Deferred contributions	(883)	327
Accrued retirement allowance	342	149
Accrued registered pension liability	(60)	(51)
	(1,129)	1,363
Investing activities		
Purchase of property, plant and equipment	(185)	(62)
Proceeds on disposal of property, plant and equipment	10	1
	(175)	(61)
Net (decrease) increase in cash for the year	(1,304)	1,302
Cash at beginning of year	9,833	8,531
Cash at end of year	$ 8,529	$ 9,833

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Medical Research (the Foundation) operates under the authority of the *Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000, as amended. The Foundation is exempt from income tax under section 149(1)(d.1) of the *Income Tax Act*.

The Foundation supports and promotes research in Alberta to improve health and thereby the quality of life of Albertans and people throughout the world.

Note 2 Significant Accounting Policies and Reporting Practices

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations. Significant items that required the use of estimates or approximations in these financial statements were Accrued retirement allowance, Accrued pension liability and Commitments. Although these estimates and approximations have been made using careful judgment, actual results could differ from those estimates. In management's opinion, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Alberta Foundation for Health Research, a wholly owned subsidiary of the Foundation, which operates under the Alberta *Companies Act* and is a registered charitable organization for income tax purposes. The Alberta Foundation for Health Research activities are directed to promote and support medical and health research.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment, except for leasehold improvements, are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(c) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the consolidated statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, restricted cash, accounts receivable, advances, accounts payable and accrued liabilities.

(d) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

Restricted contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Restricted investment income is deferred and recognized as revenue in the period in which the related expenses are incurred.

(e) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded when substantially all terms and conditions for the implementation of the grant and/or award have been met.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2006, securities held by the CCITF have an average effective market yield of 3.96% per annum (March 31, 2005 - 2.79% per annum).

Trustees have authority to draw down funds from the endowment to cover cash requirements. Cash is therefore drawn from the endowment on an as needed basis. Funds to cover deferred contributions (Note 8) are also included in Cash and maintained in the Consolidated Cash Investment Trust Fund.

Note 4 Alberta Heritage Foundation for Medical Research Endowment Fund

The Endowment Fund operates pursuant to the Alberta Heritage Foundation for Medical Research Act and consists of an initial endowment of $300 million from the Alberta Heritage Savings Trust Fund together with cumulative earnings thereon, less cumulative transfers to the Foundation. In the 2005 Spring session of the Alberta Legislature, the Government announced its commitment to increase the Endowment Fund by an additional $500 million. As at March 31, 2006, $200 million has been transferred to the Fund under this commitment.

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such transfers do not result in the net assets of the Endowment Fund, valued at cost, being less than the initial endowment.

At March 31, 2006, the net assets of the Endowment Fund valued at cost were approximately $1.129 billion (2005 $871 million) and the market value of the investments was $1.210 billion (2005 $912 million).

Note 5 Property, Plant and Equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		(thousands of dollars)		
Furniture and equipment	$ 525	$ 302	$ 223	$ 175
Computer hardware and software	1,218	1,105	113	105
Leasehold improvements	212	178	34	59
	$ 1,955	$ 1,585	$ 370	$ 339

Note 6 Pension Plan

The Foundation's pension plan is a defined benefit plan. An actuarial valuation of the plan was carried out on March 31, 2006. This valuation was prepared using an extrapolation of the March 31, 2004 valuation results to March 31, 2006. The next actuarial valuation for funding purposes must be at an effective date no later than March 31, 2007. The following significant actuarial assumptions were employed to determine the pension expense and the accrued benefit obligation:

	2006	2005
Expected long-term rate of return on plan assets	7.00%	7.00%
Discount rate	6.00%	6.00%
Assumed rate of salary escalation	4.50%	4.50%

The transitional asset is being amortized over the average remaining service period of active employees expected to receive benefits under benefit plans.

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees. 100% of the plan assets are held in trust by Manulife Financial and are invested in accordance with the pension plan investment policy.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 6 Pension Plan (continued)

Information about the Foundation's defined benefit plan is as follows:

	2006	2005
	(thousands of dollars)	
(a) Pension expense		
Current service cost, net of employee contributions	$ 207	$ 212
Interest cost	178	160
Expected return on plan assets	(184)	(175)
Amortization of net actuarial loss	12	10
Amortization of transitional asset	(29)	(29)
Defined benefit plan expense	$ 184	$ 178
(b) Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 2,803	$ 2,404
Current service costs, net of employee contributions	207	212
Employee Contributions	61	68
Interest cost	178	160
Actuarial loss	428	51
Benefits paid	(159)	(92)
Accrued benefit obligation, end of year	$ 3,518	$ 2,803
(c) Plan assets		
Fair value of plan assets, beginning of year	$ 2,570	$ 2,225
Actual return on plan assets	270	139
Contributions	305	298
Benefits paid	(159)	(92)
Fair value of plan assets, end of year	$ 2,986	$ 2,570
(d) Accrued benefit liability		
Funded status - plan deficit	$ 532	$ 233
Unamortized net actuarial loss	(853)	(523)
Unamortized net transitional asset	341	370
Accrued benefit liability	$ 20	$ 80

Note 7 Retirement Allowance

The retirement allowance consists of the unfunded liability for the Foundation's supplemental retirement plan, the benefits under which are paid for entirely by the Foundation when they come due. There are no plan assets. The unfunded liability at March 31, 2006 of $961,000 (2005 $619,200) has been accrued, $388,000 was expensed and $46,000 was paid out in 2005-2006. This liability was determined by an independent actuary using the same assumptions that were used to value the pension plan.

Note 7 Retirement Allowance (continued)

Participation in the supplemental retirement plan is by invitation of the Trustees. Benefits for the five participants are supplemental to the Registered Plan, vested, and either based on a fixed annual amount or length of service and final average earnings that exceed the Registered Plan limits set out in the *Income Tax Act*.

Information about the Foundation's retirement allowance plan is as follows:

	2006	2005
(a) Pension expense	(thousands of dollars)	
Current service cost, net of employee contributions	$ 74	$ 34
Interest cost	56	30
Amortization of net actuarial loss	258	97
Defined benefit plan expense	$ 388	$ 161
(b) Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 619	$ 469
Current service costs, net of employee contributions	74	34
Interest cost	56	30
Actuarial loss	258	97
Benefits paid	(46)	(11)
Accrued benefit obligation, end of year	$ 961	$ 619

Note 8 Deferred Contributions

(a) Health Research Collaboration (HRC)

The Foundation and Alberta Health have entered into an agreement to facilitate and enhance health research and health technology assessment and their dissemination in the province of Alberta.

(b) Health Quality Council of Alberta (HQCA)

The Foundation has entered into an agreement with Alberta Health and Wellness to provide an empirical investigation of incident learning in the radiation treatment program.

(c) Diabetes Research and Innovation Fund (DRIF)

The Foundation and Alberta Health and Wellness with the Government of the Yukon, have entered into an agreement to support research in the prevention and management in the cure of diabetes.

Note 8 Deferred Contributions (continued)

(d) Canadian Nurses Foundation (CNF)

The Foundation and the Canadian Nurses Foundation have entered into a partnership agreement to enhance nursing research in the province of Alberta.

Deferred contributions represent unspent resources externally restricted under the HRC Agreement, the Canadian Nurses Foundation, the Diabetes Research and Innovation Fund and the Health Quality Council of Alberta.

Amounts are recognized as revenue to the extent of expenses incurred under these programs during the current period. Unspent grants returned for awards ended or terminated in a prior year are credited directly to Deferred Contributions.

Changes in the deferred contributions balance are as follows:

	2006	2005
	(thousands of dollars)	
Contributions received during the year		
Transfers from Alberta Health and Wellness	$ 4,800	$ 4,800
Transfers from Diabetes Research & Innovation Fund	1,010	-
Transfers from Canadian Nurses Foundation	17	16
Transfers from Health Quality Council of Alberta	38	-
	5,865	4,816
Less amounts recognized as revenue in current year		
Health Research Collaboration	6,677	4,562
Canadian Nurses Foundation	17	-
Health Quality Council of Alberta	38	-
	6,732	4,562
(Decrease) increase during the year	(867)	254
Balance at beginning of year	8,049	7,738
Plus refund from prior years	-	73
Balance at end of year	$ 7,182	$ 8,065
The balance is comprised as follows:		
Health Research Collaboration	6,172	8,049
Diabetes Research & Innovation Fund	1,010	-
Canadian Nurses Foundation	-	16
Balance	$ 7,182	$ 8,065

Note 9 Net (Liabilities) Assets

Operations include the biomedical and health programs of the Foundation which are funded from the transfers from the Endowment Fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 10 Recoveries on Technology Commercialization

The Foundation has entered into various agreements to fund technology commercialization projects. The projects involved have high scientific merit, but are speculative with both technical and commercial risk. Any recoveries by the Foundation under these agreements will be long term, in some cases at least ten years. In addition to recoveries, some agreements contain a provision for future royalty payments.

Note 11 Commitments

	Grants & Awards (a)	Office Premises (b)	SEARCH Canada	Total
	(thousands of dollars)			
2006-2007	$ 34,149	$ 117	$ 2,270	$ 36,536
2007-2008	21,826	156	2,270	24,252
2008-2009	15,198	156	2,270	17,624
2009-2010	11,135	170	-	11,305
2010-2011	7,073	184	-	7,257
	$ 89,381	$ 783	$ 6,810	$ 96,974

(a) Grants and Awards for which all terms and conditions have been agreed to are recorded as commitments.

(b) The Foundation has entered into a 60 month lease for office premises at the conclusion of the current lease. This lease commences on October 1, 2006 and expires on September 30, 2011. The leased premise cost is as follows:

i. Months 1-36 @ $11 per Sqft
ii. Months 37-60 @ $13 per Sqft

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 12 Executive Compensation

	2006			2005
	Salaries [b]	Benefits [c]	Total [d]	Total
Chairman	$ 11,850	$ 133	$ 11,983	$ 9,800
Board of Trustees	70,917	2,176	73,093	69,599
President & Chief Executive Officer [a]	272,729	122,107	394,836	437,334
Vice President, Research	159,778	105,616	265,394	182,227
Vice President, Corporate Affairs & Commercialization	127,823	66,275	194,098	153,206
	$643,097	$ 296,307	$939,404	$852,166

[a] The former President & Chief Executive Officer retired effectively July 31, 2004 (2005 - salary, benefits and vacation payout totaling $206,692). The new President & Chief Executive Officer commenced employment July 1, 2004 (2005 - total salary, benefits totaling $230,642). The taxable benefit amount for the home loan for the new President & Chief Executive Officer is excluded from the figures indicated above.

[b] Salaries include regular base pay, overtime, retainers, honoraria, and any other direct cash remuneration.

[c] Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employment Insurance, Canada Pension Plan, vacation payouts, pension, health care, dental coverage, medical benefits, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

[d] Salaries and benefits are distributed to various expense categories including program planning, governance and corporate administration.

Note 13 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for Foundation awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation. Variance from budget is determined largely by the number and quality of actual applications received and deferred or declined awards.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 13 Budget (continued)

The 2005-2006 Foundation budget was approved by the Board of Trustees in March 2005. Following is the Unconsolidated Alberta Heritage Foundation for Medical Research budget:

	Actual	Budget
	(thousands of dollars)	
Revenue	$ 57,431	$ 57,844
Grants and Awards	51,416	51,763
Program Delivery	1,564	2,052
Operations	5,544	5,478
	$ 58,524	$ 59,293

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 14 Employee Loan

The home relocation loan for the President and CEO of the Foundation is secured by a first mortgage registered against the property. The term of the loan is for four years, payable in annual installments of $25,000, commencing July 1, 2006 provided that any balance owing shall become immediately payable upon termination of employment. If the employment term is extended, the loan repayment term will also be extended with annual payments of $25,000, until the loan is repaid. This loan remains interest free unless the mortgagor is in default at which point the interest will be at a rate of 2% above the annual bank of Canada rate.

Note 15 Unspent Grant Returns

Grant Trust accounts managed by the universities may at the end of the award have unspent balances that are returned to the Foundation. Treatment of unused funds is dependent on when the award ended.

(a) Unspent grants returned for awards ending or having been terminated within the current fiscal year are credited to the grant expense account in the current year.

(b) Unspent grants returned for awards ended or terminated in a prior year are recorded as revenues, as they do not relate to current year grant expenses.

Notes to the Consolidated Financial Statements

for the year ended March 31, 2006

Note 16 Other Revenue

The Foundation managed the peer review process and the disbursement of funds for the Health Quality Council of Alberta's HQCA Fellowship and received an administration fee of $7,000.

The Foundation received $98,000 in sponsorship dollars towards the Inukshuk Conference held in November 2005.

Note 17 SEARCH Canada

SEARCH is a program established by the Foundation in 1996 to provide health regions and organizations with opportunities to develop capacity for evidence-based decision-making. Sponsored by their organizations, participants link across regional boundaries on issues of common interest, and work together to improve the quality of information and decision-making at a local level.

On April 1, 2005, SEARCH moved from a program within the Foundation to become a not-for-profit member organization called SEARCH Canada. Members include the Foundation, Alberta's nine health regions, and the University of Calgary. During the current year, transition funding for program costs and overhead valued at $1,170,000 was provided from the Foundation and $1,100,000 was similarly provided under the HRC Agreement. The Foundation has committed to annual grant payments of $2,270,000 to SEARCH Canada over the next three years - $1,170,000 per year from the Foundation and $1,100,000 under the HRC Agreement.

Note 18 Challenge Offer

The challenge offer is a program to contribute to health research-related capital construction at the universities of Alberta, Calgary and Lethbridge. Total commitments were $41,650,000 and $30,000,000 remains outstanding at year end 2006.

The Trustees approved an increase in payout for 2006 to $6,000,000 from $4,000,000 as per the original agreement. Commitments paid in 2006 were $6,000,000; $3,000,000 each to the University of Alberta and the University of Calgary.

Notes to the Consolidated Financial Statements

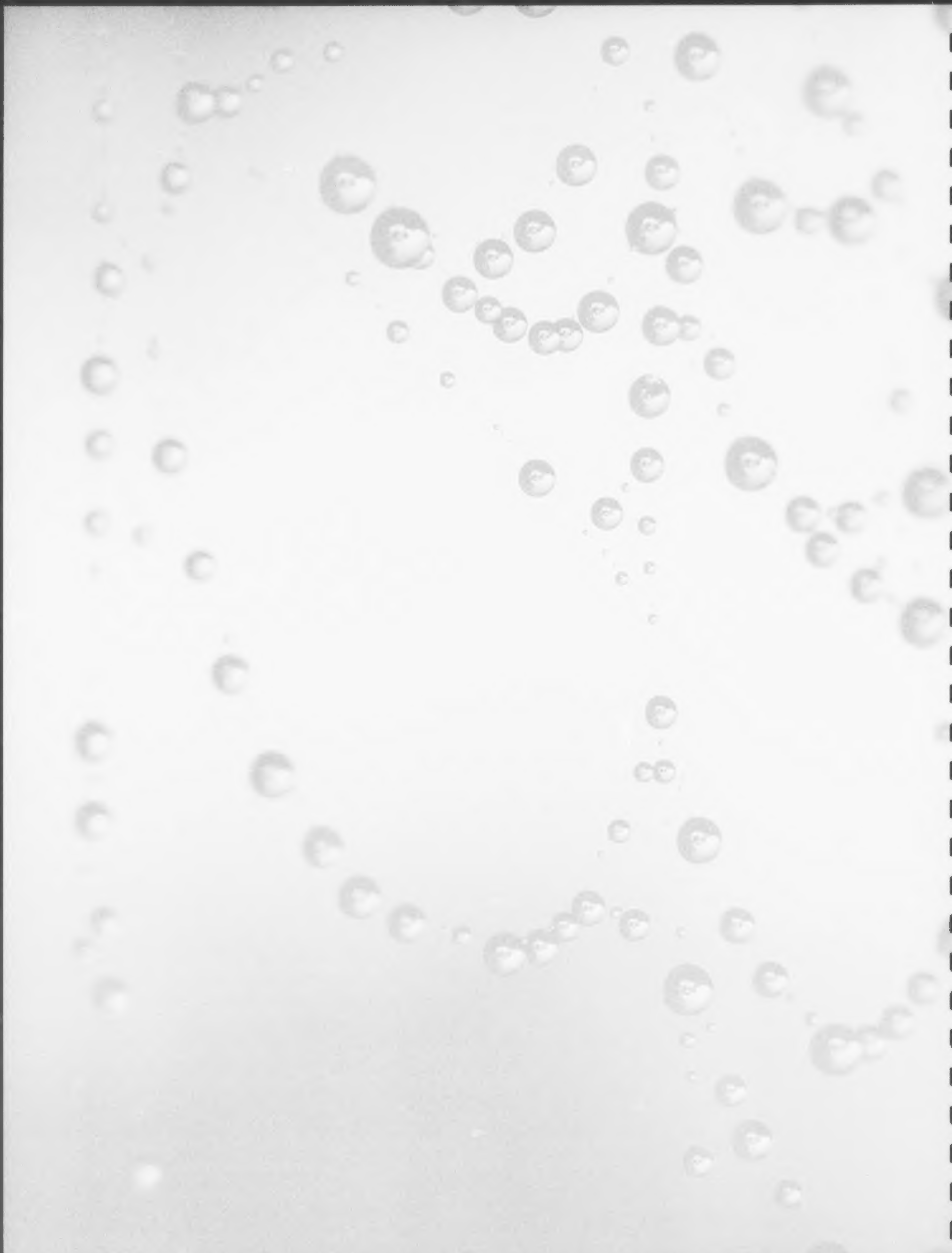
for the year ended March 31, 2006

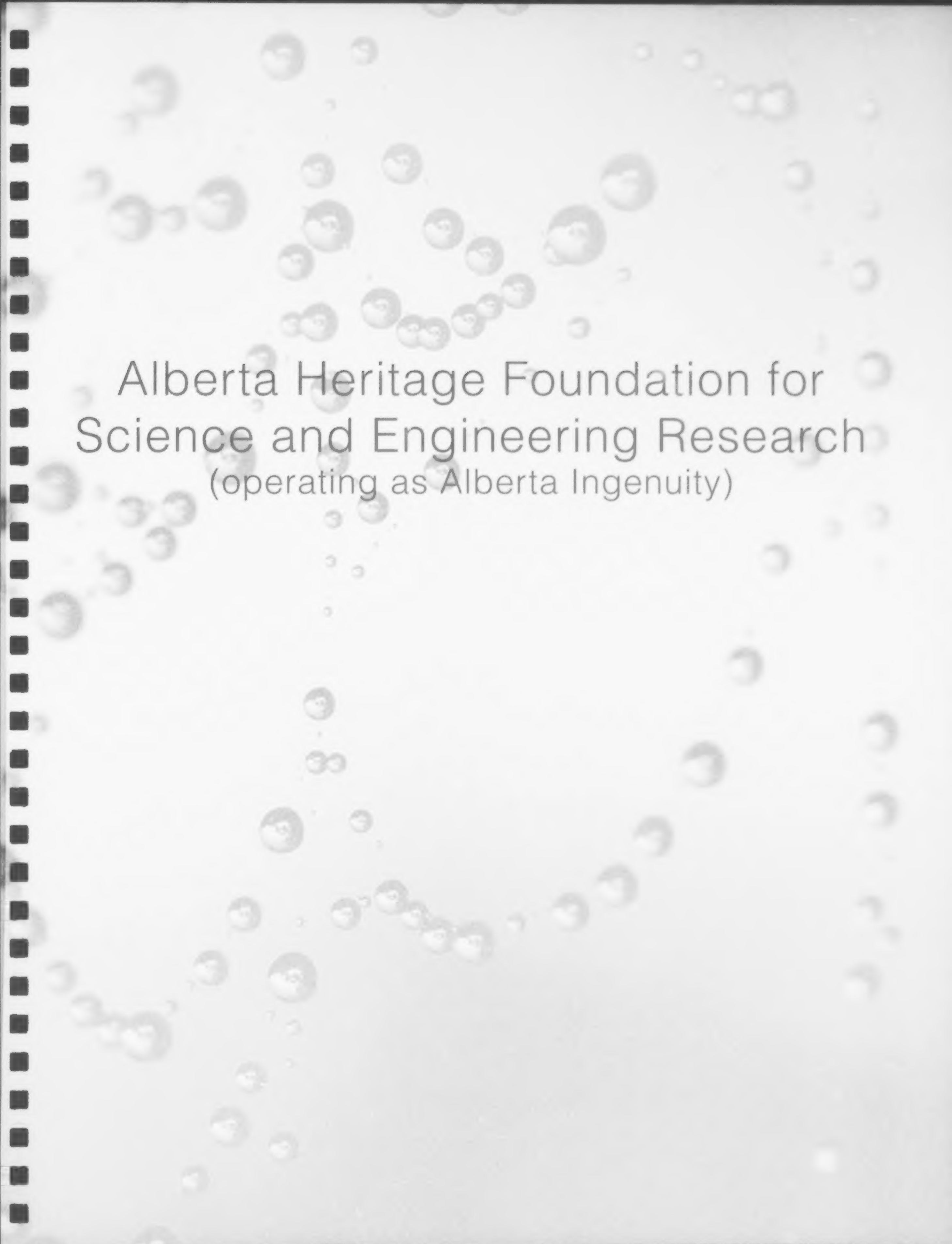
Note 19 Approval of Financial Statement

These financial statements were approved by the Board of Trustees.

Note 20 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.





Alberta Heritage Foundation for Science and Engineering Research

(operating as Alberta Ingenuity)

Financial Statements

for the year ended March 31, 2006

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets (Liabilities)

Statement of Cash Flows

Notes to the Financial Statements

Schedule A

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Trustees of the Alberta Heritage Foundation for Science and Engineering Research

I have audited the statement of financial position of the Alberta Heritage Foundation for Science and Engineering Research as at March 31, 2006 and the statements of operations, changes in net assets (liabilities), and cash flow for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 13, 2006

Statement of Financial Position

as at March 31, 2006

(thousands of dollars)

	2006	2005
Assets		
Current		
Cash (Note 3,4)	$ 13,115	$ 895
Accounts & Interest Receivable	43	3
Contributions Receivable (Note 6)	-	38,000
Advances and Prepaid Expenses	5	10
	13,163	38,908
Long Term		
Portfolio Investments - Prion Fund (Note 4)	25,115	-
Property and Equipment (Note 5)	453	166
Total Assets	$ 38,731	$ 39,074
Liabilities and Net Assets		
Current		
Accounts Payable and Accrued Liabilities	209	5,342
Current Portion of Deferred Lease Inducement	32	10
	241	5,352
Long Term		
Deferred Lease Inducement	251	6
Deferred Contributions (Note 6)	37,899	38,000
	38,391	43,358
Net Assets (Liabilities)	340	(4,284)
	$ 38,731	$ 39,074

The accompanying notes are part of these financial statements.

Approved by the Board:

Mary C Ritchie

Mr. Ronald Triffo, P.Eng
Chairman

Ms. Mary Ritchie, FCA
Trustee

Statement of Operations

for the year ended March 31, 2006

(thousands of dollars)

	2006		2005
	Budget (Note 7)	Actual (Schedule A)	Actual
Revenue			
Transfers from Endowment Fund (Note 9)	$ 22,065	$ 17,975	$ 13,445
Grants from Innovation and Science (Note 6)	-	1,884	-
Interest and Other Revenue	20	32	14
	22,085	19,891	13,459
Expenses			
Grants and Awards			
Ingenuity Centres	7,750	1,669	6,777
Students	3,489	3,328	2,437
Industrial Associateships	3,007	2,447	1,491
Fellowships	2,187	1,756	1,567
Scholars	2,020	570	804
New Faculty Awards	1,386	1,273	979
Genome Alberta	-	1,350	-
Industrial Internships	150	75	-
Associateships	150	137	556
Establishment	-	-	249
Special Initiatives	100	103	13
Sponsorships	157	261	85
	20,396	12,969	14,958
Operations			
Human Resources	1,050	1,152	940
Communication/External Relations	187	260	289
Program Development	97	10	48
Peer Review	36	48	37
	1,370	1,470	1,314
Administration			
Corporate Administration	213	492	158
Governance and Planning	356	260	215
Amortization of Property and Equipment	55	76	41
	624	828	414
Total Expenses	22,390	15,267	16,686
Excess (Deficiency) of Revenues Over Expenses	$ (305)	$ 4,624	$ (3,227)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets (Liabilities)

for the year ended March 31, 2006

(thousands of dollars)

	2006			2005
	Invested in Capital Assets	Unrestricted	Total	Total
Balance at beginning of year	$ 166	$ (4,450)	$ (4,284)	$ (1,057)
Excess (deficiency) of revenue over expenses	-	4,624	4,624	(3,227)
Purchase of property and equipment	376	(376)	-	-
Loss on disposal of property and equipment	(13)	13	-	-
Amortization of property and equipment	(76)	76	-	-
Balance at end of year	$ 453	$ (113)	$ 340	$ (4,284)

Alberta Heritage Foundation for Science and Engineering Research

Statement of Cash Flow

for the year ended March 31, 2006

(thousands of dollars)

	2006	2005
Operating Activities		
Cash from Endowment Fund Transfers and Other	$ 18,676	$ 13,459
Cash for Grants and Awards	(18,102)	(10,947)
Cash for Operations	(1,465)	(1,393)
Cash for Administration	(780)	(327)
Net Cash Provided from Operating Activities	(1,671)	792
Investing Activities		
Cash Paid for Purchase of Property, Plant and Equipment	(376)	(87)
Investment in Prion Research Fund	(24,000)	-
	(24,376)	(87)
Financing Activities		
Deferred Contribution - Prion Fund	35,000	-
Deferred Contribution - Genome Alberta	3,000	-
Deferred Lease Inducement	267	-
	38,267	-
Net increase in Cash for the Year	12,220	705
Cash at Beginning of Year	895	190
Cash at End of Year	$ 13,115	$ 895

Notes to the Financial Statements

for the year ended March 31, 2006

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Science and Engineering Research (the Foundation) operates under the authority of the *Alberta Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2003, as amended. The Foundation commenced operations on April 1, 2000 and is exempt from income tax under section 149(l)(d.1) of the *Income Tax Act*.

The Foundation supports and promotes a balanced long term program of science and engineering research based in Alberta directed to the discovery of new knowledge and application of that knowledge to improve the quality of Alberta's economy, communities and environment.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many asset and liabilities is dependent on future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable materiality and within the framework of the accounting policies summarized below.

(a) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 2 Significant Accounting Policies and Reporting Practices (cont'd)

(b) Financial Instruments

The Foundation's portfolio investments are held in the Canadian Dollar Public Bond Pool (CDPBP) established and administered by Alberta Finance. These investments consist of fixed-income securities which are recorded at cost as of the trade date and adjusted for amortization of discount or premium on a straight-line basis over the life of the instruments. The cost of disposals within the CDPBP is determined on the average cost basis. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss and the written down value is deemed to be the new cost.

CDPBP investments have a market-based unit value that is used to value purchases and sales of pool units. Fair values of public fixed-income securities held by CDPBP are equal to year-end closing sale prices or the average of the latest bid and ask prices quoted by an independent securities valuation company. Fair values of private fixed income securities held by CDPBP are equal to the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. The total fair value of portfolio investments is disclosed in Note 4 to the financial statements.

The carrying values of accounts and interest receivable and accounts payable and accrued liabilities approximate fair value due to the relative short-term maturity of these financial instruments.

(c) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

Restricted contributions are deferred and recognized as revenue in the period(s) that eligible expenditures are incurred. Restricted investment income is deferred and recognized as revenue on the same basis as the underlying restricted contributions.

(d) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when all conditions of eligibility have been met.

(e) Deferred Lease Inducement

Deferred lease inducements represent the unamortized portion of cash payments received by the Foundation for office premises. Deferred lease inducements will be amortized on a straight-line basis over the term of the lease.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 2 Significant Accounting Policies and Reporting Practices (cont'd)

(f) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. Gains and losses arising from disposals of investments are included in the determination of investment income.

(g) Derivatives

The Foundation owns a portion of certain derivative contracts through its investment in the CDPBP (see Note 4). Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The fair value of these derivatives at the reporting date is included in the fair value of the Foundation's CDPBP investment as follows:

(i) Bond index swaps involve exchange of a floating interest rate cash flow for one based on the performance of a market index. Bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps involve exchange of fixed and floating rate interest cash flows. Cross-currency interest rate swaps involve exchange of fixed-to-fixed and fixed-to-floating interest rate cash flows of Canadian fixed-income securities denominated in foreign currency for Canadian currency amounts both initially and at maturity. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps allow counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Foreign exchange forward contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate on an agreed future settlement date. Forward foreign exchange contracts are valued based on quoted market prices.

Income and expense arising from net cash flow receivables or payables under derivative contracts are included in investment income. Certain derivative contracts, primarily interest rate swaps and cross-currency interest rate swaps, are designated and accounted for as hedges of market risks. Hedge accounting recognizes fair value gains and losses from hedge-effective derivatives in the same period as the offsetting gains and losses on the security being hedged. Derivative contracts not designated as hedges for purposes of hedge accounting, primarily bond index swaps, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value with gains and losses included in current period income.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 3 Cash

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund ("CCITF"). The CCITF is administered by the Ministry of Finance with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005- 2.79% per annum).

Note 4 Portfolio Investments – Prion Fund

The Foundation's Prion Fund investments are held in the Canadian Dollar Public Bond Pool (CDPBP) established and administered by Alberta Finance. The pool is comprised of high quality Canadian fixed income instruments and related derivatives and is managed with the objective of providing above-average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. Competitive returns are achieved through management of the portfolio duration and sector rotation. At March 31, 2006, the Foundation's percentage ownership, at market, in the CDPBP was 0.25% (2005 – 0.0%).

Schedule of Investments in Fixed Income Securities (CDPBP)

	2006	
	Cost	Fair Value
	(thousands of dollars)	
Public Fixed-Income Securities		
Government of Canada		
Direct and Guaranteed	$ 6,869	$ 6,539
Provincial		
Alberta, Direct and Guaranteed	152	143
Other, Direct and Guaranteed	4,208	4,279
Municipal	120	122
Corporate	11,297	10,754
Private Fixed-Income Securities		
Corporate	1,995	1,806
	24,641	23,643
Accounts Receivable and Accrued Investment Income	517	517
Accounts Payable and Accrued Liabilities	(43)	(43)
	$ 25,115	$ 24,117

Note 4 Portfolio Investments – Prion Fund (cont'd)

A. Investment Risk Management

Income and financial returns of the Foundation are exposed to credit risk and price risk. Credit risk relates to the possibility losses may occur from failure of another party to perform according to the terms of a contract. Price risk is comprised of interest rate risk and market risk. Interest rate risk relates to the possibility investments will change in value due to fluctuations in market interest rates. Market risk relates to the possibility investments will change in value due to future fluctuations in market prices. The Foundation considers its investments to be long-term, so market devaluations are not recorded unless there is evidence a decline is other than temporary. As at March 31, 2006, the market value of its CDPBP investments was $998,000 less than the recorded cost.

To earn an optimal financial return at an acceptable level of risk, management of the Foundation has established an investment policy which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class, and quality and duration constraints on fixed-income instruments. Controls are also in place respecting the use of derivatives.

B. Derivative Contracts

The Foundation uses derivative contracts held indirectly through CDPBP to enhance investment returns, manage exposure to interest rate risk and foreign currency risk, and for asset mix management purposes. The following is a summary of the Foundation's proportionate share of the notional amount and fair value of swap contracts issued by CDPBP as at March 31, 2006.

	Maturity			2006	
	Under 1 Year	1 to 3 Years	Over 3 years	Notional Amount	Net Fair Value (a)
				(thousands of dollars)	
Credit default swap contracts	-	-	100%	$ 7,264	$ 15
Interest rate swap contracts	60%	40%	-	2,699	-
Cross-currency interest rate swaps	12%	7%	81%	1,192	49
Bond index swap contracts	100%	-	-	818	(7)
Forward foreign exchange contracts	100%	-	-	185	(2)
				$ 12,158	$ 55

a) Current credit exposure is represented by the net fair value of all outstanding contracts in favourable position ($64). The method of determining the net fair value of derivative contracts is described in Note 2 (g).

Notes to the Financial Statements

for the year ended March 31, 2006

Note 4 Portfolio Investments – Prion Fund (cont'd)

C. Investment Income

Investment income, by type of income and investment, is as follows:

	2006				2005
	Alberta Ingenuity	Prion Research	Genome Alberta	Total	Total
	(thousands of dollars)				
Net investment income by type of income					
Net realized gains on investments including derivatives	$ -	$ 132	$ -	$ 132	$ -
Interest Income	32	583	85	700	14
Investment Income	-	987	-	987	-
Security Lending Income	-	1	-	1	-
Administration Expenses	-	(5)	-	(5)	-
	$ 32	$ 1,698	$ 85	$ 1,815	$ 14
Net investment income by type of investment					
Income from deposits in the Consolidated Cash Investment Trust Fund ("CCITF")	$ 32	$ 583	$ 85	$ 700	$ 14
Income from Canadian Dollar Public Bond Pool ("CDPBP")	-	1,115	-	1,115	-
	$ 32	$ 1,698	$ 85	$ 1,815	$ 14

D. Investment Performance

The Foundation attained overall investment performance of 0.9% on a fair value basis. Investment returns are for the six months ended March 31, 2006. The overall benchmark return of 0.7% for the six months ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns. Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.70% per annum.

Note 5 Property and Equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(thousands of dollars)			
Furniture and equipment	$ 148	$ 40	$ 108	$ 65
Computer hardware and software	180	74	106	81
Leasehold improvements	305	66	239	20
	$ 633	$ 180	$ 453	$ 166

Notes to the Financial Statements

for the year ended March 31, 2006

Note 6 Deferred Contributions

The Ministry of Innovation and Science provided Alberta Ingenuity with $35 million to promote, facilitate and enhance Prion research within Alberta over a 7 year period, commencing in 2005-2006, and an additional $3 million to provide seed funding towards the creation and operation of Genome Alberta. The amounts were authorized by the Ministry in 2004-05 and were received in April, 2005. Deferred contribution balances at March 31, 2006 are:

	Prion Research	Genome Alberta	Total
		(thousands of dollars)	
Opening balance	$ 35,000	$ 3,000	$ 38,000
Investment earnings	1,698	85	1,783
Grants and disbursements	(534)	(1,350)	(1,884)
Ending Balance	$ 36,164	$ 1,735	$ 37,899

Deferred Contributions at March 31, 2006 consist of:

	Prion Research	Genome Alberta	Total
		(thousands of dollars)	
Cash in CCITF	$ 11,049	$ 1,735	$ 12,784
Investments	25,115	-	25,115
Total	$ 36,164	$ 1,735	$ 37,899

As this funding is restricted in its use, the contributions are deferred and recognized as revenue in the period(s) that eligible expenditures are incurred. Restricted investment income is deferred and recognized as revenue on the same basis as the underlying restricted contributions.

Note 7 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for the Foundation's awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation. The Budget was approved on June 21, 2005.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 8 Executive Compensation

	2006			2005
	Salaries (a)	Benefits (b)	Total (c)	Total
Chairman	$ 10,675	$ -	$ 10,675	$ 12,600
Board of Trustees	87,000	2,578	89,578	100,633
President	259,000	8,301	267,301	214,985
	$ 356,675	$ 10,879	$ 367,554	$ 328,218

(a) Salaries include regular base pay, retainers, honoraria and other direct cash remuneration. The annual salary amount for the President and Chief Executive Officer is $210,000.

(b) Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employment Insurance, Canada Pension Plan, Accidental Death and Dismemberment Insurance, long and short-term disability plans and professional memberships.

(c) Salaries and benefits are distributed to various expense categories including human resources and governance and planning.

Note 9 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund

The Endowment Fund operates pursuant to the AHFSER Act and consists of endowment contributions of $621 million (including $100 million deposited in December, 2005) from the General Revenue Fund of the Province of Alberta together with cumulative earnings thereon, less cumulative transfers to the Foundation. At March 31, 2006, the book value of the net assets of the Endowment Fund were $677 million (2005 - $538 million) and the market value of the investments were $716 million (2005 - $549 million).

In the 2005 Spring session of the Alberta Legislature, the Government announced its commitment to increase the Endowment Fund by an additional $500 million. As at March 31, 2006, $100 million has been transferred to the Fund under this commitment.

For 2004-05 and subsequent years, payments from the Endowment Fund to the Foundation in the fiscal year may not exceed 4.5% of the average of the market values of the Fund determined on March 31 of the preceding three fiscal years. Any unused portion of the amount permitted to be paid in a fiscal year may be paid to the Foundation in any subsequent fiscal year.

Notes to the Financial Statements

for the year ended March 31, 2006

Note 9 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund (cont'd)

	2006	2005
	(thousands of dollars)	
Accumulated unused funding limit, opening	$ 7,902	$ -
4.5% of average market value at March 31, preceding three years	22,458	21,347
Transfers to the Foundation during the year	(17,975)	(13,445)
Accumulated unused funding limit, closing	$ 12,385	$ 7,902

Note 10 Commitments

	Ingenuity Centres (a)	Other Grants & Awards (b)	Office Premises (c)	Total
	(thousands of dollars)			
2006-2007	$ 6,672	$ 7,852	$ 194	$ 14,718
2007-2008	6,672	4,819	151	11,642
2008-2009	3,470	2,000	151	5,621
2009-2010	1,235	90	161	1,486
2010-2011	-	-	161	161
	$ 18,049	$ 14,761	$ 818	$ 33,628

(a) The amounts to be paid to the Ingenuity Centres in future years will be based on budgets to be submitted by the Centres, the amount of which is not known at this time. The amounts included in the schedule above are based on the amounts budgeted for 2005-06.

(b) Commitments for Other Grants and Awards include amounts estimated to be paid under the terms of the grant agreements in future periods provided all conditions of eligibility are met by the recipient.

(c) The Foundation has entered into a 120-month lease for the Manulife office premises. This lease expires January 31, 2016.

Note 11 Approval of Financial Statements

These financial statements were approved by the Board of Trustees.

Note 12 Comparative Figures

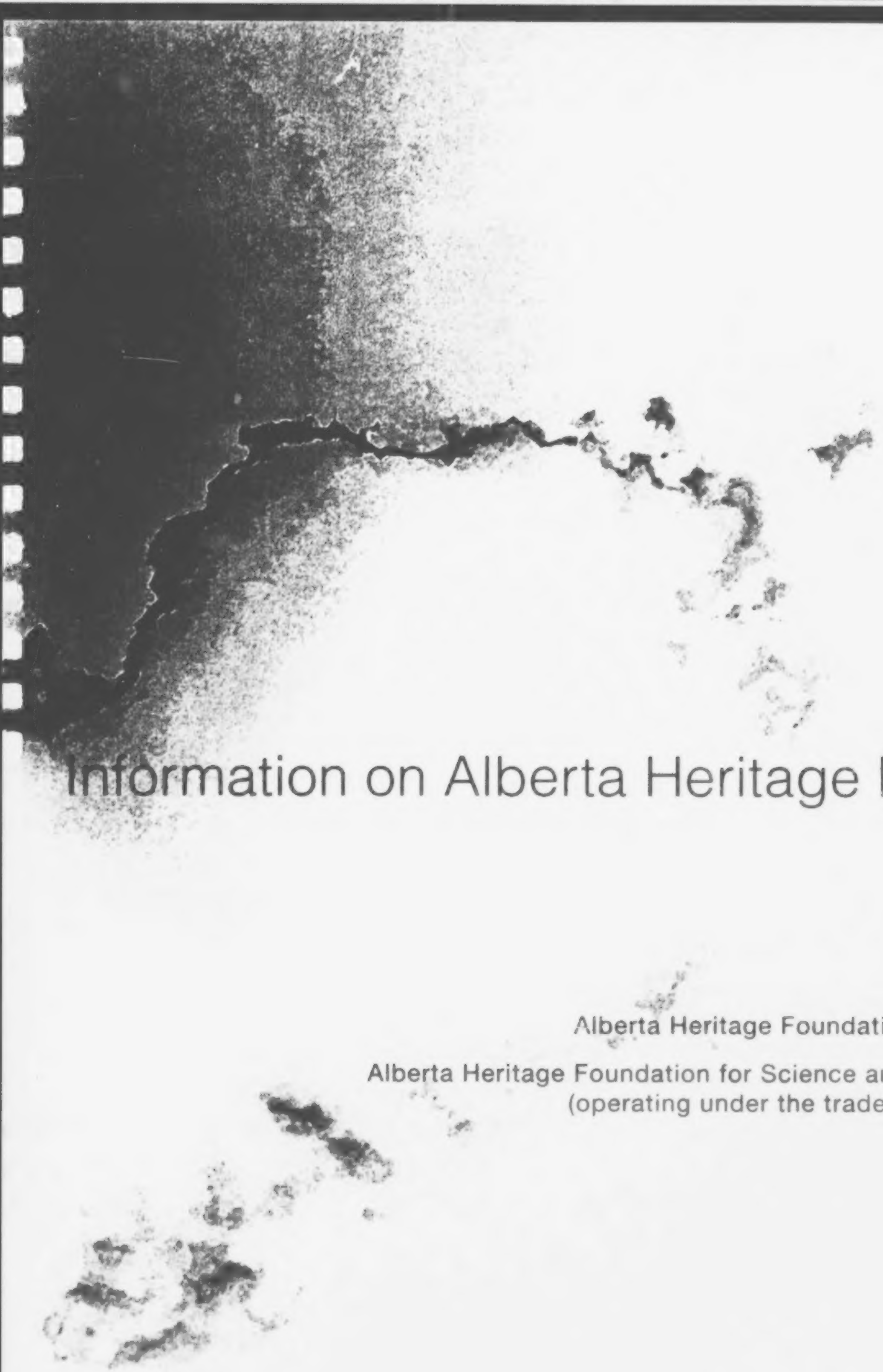
Certain comparative figures have been reclassified to conform to the presentation for the current year.

Schedule A
Consolidated Statement of Operations

for the year ended March 31, 2006

(thousands of dollars)

	Alberta Ingenuity	Prion Institute	Genome Alberta	Consolidated
Revenue				
Transfers from the Endowment Fund (Note 9)	$ 17,975	$ -	$ -	$ 17,795
Grants from Innovation and Science (Note 6)	-	534	1,350	1,884
Interest and Other Revenue	32	-	-	32
	18,007	534	1,350	19,891
Expenses				
Grants and Awards				
Students	3,328	-	-	3,328
Industrial Associates	2,447	-	-	2,447
Fellowships	1,756	-	-	1,756
Ingenuity Centres	1,669	-	-	1,669
Genome Alberta	-	-	1,350	1,350
New Faculty Awards	1,273	-	-	1,273
Scholars	570	-	-	570
Sponsorships	223	38	-	261
Associateships	137	-	-	137
Special Initiatives	103	-	-	103
Industrial Interns	75	-	-	75
	11,581	38	1,350	12,969
Operations				
Human Resources	930	222	-	1,152
Communications and External Relations	246	14	-	260
Program Development	10	-	-	10
Peer Review	36	12	-	48
	1,222	248	-	1,470
Administration				
Corporate Administration	299	193	-	492
Governance and Planning	205	55	-	260
Amortization of Property and Equipment	76	-	-	76
	580	248	-	828
Total Expenditures	13,383	534	1,350	15,267
Excess of revenues over expenses	$ 4,624	$ -	$ -	$ 4,624



Information on Alberta Heritage Foundations

Alberta Heritage Foundation for Medical Research

Alberta Heritage Foundation for Science and Engineering Research
(operating under the trade name Alberta Ingenuity)

Information in this section is unaudited

AHFMR Act

The objects of the Foundation are to establish and support a balanced long-term program of Alberta-based medical research directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta.

AHFMR Goals (Outputs and Outcomes)

To maintain, strengthen or expand established programs and lead initiatives in health research in Alberta

Personnel Support

- For the competition year 2005–06, new awards granted over the next five-year period in various areas of health research totalled $48.0 million to 63 researchers.
- Key basic research areas include: heart disease, stroke, allergies, diabetes, chronic lung disease, nerve cells and stress.
- AHFMR awarded $5.3 million to 10 health researchers working in such areas as binge drinking, frail seniors, kidney disease and disease surveillance.
- In 2005–06 AHFMR provided funding to almost 500 researchers-in-training, ranging from high school students to young clinician-scientists. Total funding for these programs was approximately $6.3 million.

Partnerships and Initiatives that provide additional financial resources

In fall of 2004, Alberta Health and Wellness extended its contract with AHFMR for administration of the Health Collaboration Agreement. At the end of the current two-year extension, a decision will be made regarding a renewal of the agreement.

Programs in this agreement include:

Health Research Fund

- For the competition year 2005–06, 19 researchers received offers of Health Research Fund awards totaling $1.4 million over two years. The Health Research Fund is administered by AHFMR on behalf of Alberta Health and Wellness.
- A further $1.0 million was released to 20 researchers conducting on-going projects approved in last year's competition. Research projects funded in 2005 include: an assessment of rehabilitation services for children with cerebral palsy; how computer technology can better help nurses; perception of back pain; reducing complications of catheterized patients; effectiveness of bed rest in preventing pre-term birth; and Alberta's preparedness for a public health threat.
- AHFMR's Health Research Agenda continues to guide AHFMR in allocating the most effective and efficient support for health research throughout the province.

Health Technology Assessment

- AHFMR's Health Technology Assessment (HTA) Unit produced the following assessments:
    - o Protocols for Stillbirth Investigation, October 2005;
    - o Gastric Electrical Stimulation (Enterra™ Therapy system) for the Treatment of Gastroparesis, January 2006; and
    - o Strategies to reduce emergency department overcrowding, February 2006.
- Technotes on the following topics were completed:
    - o COX-2 inhibitors (etoricoxib) for the treatment of non malignant chronic low back pain, April 2005;
    - o Advance directives and health care costs at the end of life, July 2005;
    - o Image-guided vacuum-assisted breast biopsy for suspicious, non-palpable breast lesions, July 2005
    - o COX-2 inhibitors for dysmenorrhea, August 2005; and
    - o Prognostic value of B-type natriuretic peptide for congestive heart failure, November 2005.
- Four information papers were completed on the following topics:
    - o Health Technology Assessment on the Net: A Guide to Internet Sources of Information. Seventh edition, June 2005;
    - o Celecoxib for the treatment of pain in osteoarthritis and rheumatoid arthritis, May 2005;
    - o Cost estimation of point of care B-type natriuretic peptide for the diagnosis of heart failure in the emergency department: application to Alberta, May 2005; and
    - o Laparoscopic adjustable gastric banding for the treatment of clinically severe (morbid) obesity in adults: an update, May 2005.
- Seven Health Technology Initiatives to encourage the use of evidence to inform policy and decision making in the Alberta health care system were produced:
    - o An exploratory review of evaluations of health technology assessment agencies, February 2006;
    - o The triangle of enhancement medicine, disabled people, and the concept of health: a new challenge for HTA, health research, and health policy, December 2005;
    - o Institutional medical incident medical reporting systems: a review, August 2005;
    - o Bridging the gap: the use of research evidence in policy development, September 2005;
    - o Risk management for health technology assessment, May 2005;
    - o Consumer involvement in health technology assessment, December 2005; and
    - o A reference guide for learning from incidents in radiation treatment, January 2006.
- Two issues of the newsletter *Tech-Wise* were produced: Issue 26, August 2005 and Issue 27, March 2006.

Applied Health Research Programs

The Applied Health Research Programs portfolio of the Foundation delivers and supports programs to increase capacity across the health care delivery system for the production and use of locally relevant research.

- On April 1, 2005 the Swift Efficient Application of Research in Community Health (SEARCH) Program was established as an independent not-for-profit corporation, jointly funded and governed by AHFMR, Alberta's nine health authorities and the University of Calgary, with funding in part from Alberta Health and Wellness through the Health Research Collaboration.
- The Community Research Ethics Board of Alberta (CREBA), pioneered by AHFMR to ensure access to ethics review for research across the province, met monthly, reviewed 13 protocols from rural regions, independent practitioners and contract researchers and provided guidance and referral to novice researchers across the province. CREBA also provided consultation to other jurisdictions on development of the community-based model of research ethics boards. The foundation continued to lead the Alberta Research Ethics Community Consensus Initiative (ARECCI), a collaboration of Alberta research ethics boards, health authorities and other stakeholders. Its focus was on piloting and refining the ARECCI recommendations and tools for determining the appropriate type, level and process for ethics review of certain types of knowledge-generating activities (i.e., research, quality improvement and program evaluation). ARECCI's aim is to protect people while supporting worthwhile projects that benefit the community and society.
- The Research Transfer Network of Alberta (RTNA), established in 2002, is a province-wide network that undertakes activities to strengthen the use of research to improve health practices and policies in Alberta. The network now has more than 300 members from a variety of professions, organizations and locations throughout Alberta. The RTNA presented five videoconference sessions that involved 10 to 15 sites province-wide and attracted an average of 55 participants per session. The most recent session on integrating new practices into a multidisciplinary team attracted 120 participants. The network also sponsored members to attend selected conferences on knowledge and research transfer in Alberta and across Canada. Knowledge from those conference experiences is captured on the RTNA web site and available to all members. The RTNA launched a new web site this year and piloted a successful on-line discussion. An environmental scan of support for research transfer in Western Canada has been completed and a survey of RTNA members is in the data analysis stage. The results of both these activities will inform strategic planning for the network in the coming years.
- Six new health researchers received independent investigator awards through Population Health Investigator and Health Scholar funding. This brings the total of investigators supported in health services and population health research to 42.

To maintain research education and training programs and encourage young Albertans to pursue research careers

- Over $6.3 million was awarded in fellowships, clinical fellowships, studentships and summer studentships to 500 researchers-in-training.
- The Lionel McLeod scholarship was awarded to University of British Columbia PhD student Calvin Yip for his studies in antibiotic resistance.

- AHFMR offered the sixth Heritage Youth Research Summer Program in 2005, which gave 45 of the brightest high school students a summer research experience working and learning in Heritage and other labs at the Universities of Calgary, Alberta and Lethbridge. Students for this program came from all over the province.

To encourage increased collaboration in Alberta, Canada and elsewhere among investigators, research institutions, governments, other granting agencies and the private sector

- AHFMR continued to contribute to the Canada Research Chairs through stipend and infrastructure funding contributions ($2.5 million over five years) based on amounts funded by Canada Foundation for Innovation and other partners.
- AHFMR participated in and sponsored several workshops and events and contributed to the development of a national network of linkage and exchange in applied health research and its use in decision-making (e.g. the Inukshuk Conference: Fetal and Early Childhood Development for Optimal Health, November 13-15, 2005; Health Canada conference on child health and the environment in March 2006). AHFMR is working with the Canadian Health Services Research Foundation, the Health Services Utilization and Research Commission and other organizations in developing models for research transfer capacity in health organizations.
- AHFMR hosted school and public lectures around the province featuring AHFMR researchers.
- AHFMR co-hosted, along with other provincial agencies, the Alberta visit of two Gairdner Award winners.
- AHFMR senior staff serve on advisory committees and boards of other organizations such as the Alberta Science and Technology Leadership Foundation, the Alberta Science and Research Authority, and the Alberta Centre for Child, Family and Community Health.

To continue to promote the development of health research-related economic activities in Alberta, including the commercialization of innovations

- The Technology Commercialization (TC) Program committed nearly $1.6 million in project and internship funding during the year. Mentoring and access to expertise for applicants continue to be strong components of the program.
- The TC Program enhanced its support for people and industry by piloting an Executive-in-Residence (EIR) award in partnership with TEC Edmonton. The EIR will work with university start-up companies to lead, direct and implement a broad range of commercialization activities.
- AHFMR continued to develop the TC Internship Program (TCIP) through active recruitment of industry receptors. TC Interns receive training in a broad spectrum of commercialization activities including: market analysis/intelligence, technology transfer, business development, product development and intellectual property management. As part of the 10-year anniversary activities for the TCIP, AHFMR commissioned a third-party evaluation of the program's activities and outcomes. This report will be available to the public in June 2006.
- AHFMR participated in and sponsored several TC-related workshops and forums including a competitive intelligence workshop moderated by leading expert Dr. Jonathan Calof of the University of Ottawa. TC funding recipients and interns attended the workshop.
- AHFMR continues to develop in-depth case studies to document experiences of previously supported researchers and entrepreneurs.

- AHFMR worked to strengthen capacity by facilitating researcher education in entrepreneurship and collaborating with economic development agencies and venture capitalists.
- AHFMR was a patron of the 2005 ASTech awards.

AHFMR Goals (Resources, processes, procedures)

To maintain international standards of excellence through an appropriate and effective peer review system

- As of March 31, 2006, AHFMR funded 235 researchers and 287 researchers-in-training at the University of Alberta, the University of Calgary, and the University of Lethbridge. A small number of awards are held by Albertans outside of this province for training in some of the world's most prestigious laboratories.
- Additional mental health and health services researchers receive funding through Alberta Health and Wellness' Health Research Fund, administered by AHFMR.
- All awards to personnel are made according to the highest international criteria for excellence. To fulfil this purpose, more than 500 reviewers from all over the world provide AHFMR with their reviews or sit on one of 17 AHFMR standing peer review advisory committees for awards competitions.
- AHFMR requires annual reporting on all awards.
- AHFMR's Impact Analysis Division evaluates the impact and outcomes of the foundation's activities.
- During 2005–06 two health technology assessment reports were produced and both were externally peer-reviewed prior to publication.
- AHFMR began a strategic framework development process in response to the 2004 International Board of Review report and stakeholder consultations in order to chart new directions enabled by the provincial government's commitment to an additional $500 million to the AHFMR endowment.

To manage expenditures to ensure the continuance of AHFMR for future generations while avoiding significant fluctuations in annual spending

- The AHFMR endowment was created in 1980 with $300 million. As of March 31, 2006 the value of the endowment has quadrupled from that original amount, due to the provincial government's transfer to the endowment of $300 million (as part of the $500 million addition committed in 2005).
- The cumulative AHFMR investment in the province for biomedical and health research since 1980 now totals over $850 million.
- AHFMR has quarterly meetings with Alberta Revenue as well as annual meetings between Alberta Revenue and AHFMR's board of trustees. Alberta Revenue manages AHFMR's endowment.
- Transfers from the endowment were $50 million during 2005–06.

To maintain and improve communication with the public, government, the research community, universities and health-related institutions

2005 marked the 25th anniversary of AHFMR. New programs and activities were undertaken to mark this special year, which was also the province's centennial.

- A television advertising series was produced with eight ads highlighting AHFMR research in specific health areas. These aired throughout 2005 across the province.

- AHFMR planned and convened the first-ever Inukshuk Conference in Fetal and Early Childhood Development for Optimal Health, in November of 2005. Experts from around the globe gathered in Kananaskis to discuss strategies and directions that might be undertaken. A conference summary is being prepared and will be distributed to policy makers and health research agencies around the world.
- A traveling lecturer series was undertaken throughout 2005. AHFMR and other researchers traveled to smaller centres to deliver presentations to school age and public audiences on popular health topics.
- AHFMR publications included the award-winning quarterly magazine *AHFMR Research News*, the *AHFMR Community Report* (in the form of a 2006 calendar with financial highlights) and health technology assessment reports.
- The AHFMR web site is continually monitored and maintained for currency.
- AHFMR monthly news bulletins to MLAs were produced.
- AHFMR media work highlights research accomplishments of funded personnel on a monthly basis.
- AHFMR distributed a flyer promoting the 2006 calendar through seven daily newspapers, the waiting rooms of all physicians in the province and to people on a 24,000-name mailing list.
- AHFMR supported two science students as media fellows, one with CBC radio in Edmonton, and the other with CBC radio in Calgary.
- AHFMR supported the Alberta Science Fair program with prize money for seven regional winners.
- AHFMR participated in, and was a major sponsor of, the Alberta Teachers' Association Science Council Conference in November.
- AHFMR, in collaboration with the Faculty of Medicine and Dentistry at the University of Alberta, the Faculty of Medicine at the University of Calgary, Alberta Cancer Board and Alberta Cancer Foundation, sponsored the visit to Alberta in October of two Gairdner Award winners.
- AHFMR sponsored events organized by other research agencies and university departments intended to highlight health research.

To regularly review and update AHFMR's future plans and priorities

- AHFMR's board of trustees meets quarterly to review planning and directions. In 2005 the trustees approved a strategic planning process for the foundation with results to be announced in 2006.
- AHFMR senior staff consult regularly with AHFMR advisory committees composed of members of the research community about funding recommendations and program planning and directions (e.g. Scientific Advisory Committee, Health Advisory Committee, Program Advisory Committee).
- An International Board of Review, which AHFMR is legislated to organize every six years, was convened in June of 2004 to review AHFMR's activities and recommend directions. A report was issued, applauding AHFMR's record of successes, in early fall of 2004. The next International Board of Review will be convened in 2010.

Key Factors Affecting Performance

AHFMR performance is based on its primary function of funding health research. The number of proposals submitted and the quality of applications are main determining factors in any of the competitions for awards, as is the amount of money available annually from a portion of the AHFMR endowment interest. Since AHFMR works in partnership with the province's universities to recruit and pay salaries of researchers, initiatives on the part of the universities play a large part in recruiting the best and brightest researchers to Alberta. Alberta Regional Health Authorities are key contributors to the development of health research capacity throughout the province through their endorsement of, support for and contribution to the SEARCH program and other AHFMR applied health research initiatives. In June 2004, an International Board of Review endorsed AHFMR's directions and activities and confirmed AHFMR's seminal role in the province in establishing and continuing to build a first-class research community.

Anticipated Changes or New Directions

The establishment, over the past 26 years, of a top quality research community and brain trust in Alberta is attracting funding from outside sources at a rate of $2 to $3 for every AHFMR dollar invested. AHFMR seeks out and initiates new opportunities for matching funding and for collaborative ventures with other provincial and national funding bodies. AHFMR also seeks out opportunities to expand its research portfolio and bridge the gap between the generation of knowledge through health research results and its application to improve health and the effectiveness of the health system.

In early 2005, AHFMR embarked on a strategic planning process, the results of which will be used to develop a framework for making choices about strategic directions that will best maximize the foundation's investments, exploit new opportunities in health research, maximize existing and new partnerships, help realize goals of the provincial government, and ultimately result in the most beneficial impact for the health and well-being of Albertans.

Changes Needed to Measure Performance

Currently, universal mechanisms for measuring comprehensive, overall performance in medical and health research and the impact of that research in socioeconomic terms do not exist. AHFMR carefully tracks the usual scientific metrics of publications, citations and career performance. Other measures, such as case studies, are highlighted in AHFMR's publications. AHFMR actively seeks opportunities that would assist in measuring the impact of investment on research. AHFMR has created an internal impact analysis unit to develop and apply appropriate methodology to gauge the impact and effectiveness of AHFMR's activities. AHFMR's internal impact analysis framework relates to both program and performance monitoring as well as medium- and long-term outcome evaluation of AHFMR activities.

The Alberta Foundation for Health Research

The Alberta Foundation for Health Research (AFHR) is a wholly owned subsidiary and registered charity that was incorporated in 1994 as a mechanism to receive unsolicited donations for health research projects aligned with AHFMR goals and meeting the same high standard of excellence. To date, approximately $620,000 has been received and two awards have been made: the A Window on the Brain project at the University of Calgary and a postdoctoral award at the Faculty of Nursing, University of Alberta.

Key Activities/Outcomes for 2005–06

Alberta Ingenuity operates the Alberta Heritage Foundation for Science and Engineering Research, a $1.0 billion endowment established by the Government of Alberta in 2000 to create and harness research expertise in carefully chosen areas. Through programs that support highest caliber research, Alberta Ingenuity is building Alberta's science community in areas with significant social impact and of strategic importance to Alberta.

Goal 1: To foster an innovative, value-added economy in Alberta through investment in people who exemplify excellence and are working in areas of strategic importance to Alberta

Alberta Ingenuity is positioned to be an active catalyst in the development of a value-added economy in the province of Alberta. A strong increase in the foundation's endowment will allow the fund to provide the province's knowledge-based companies and institutions of higher learning with more innovators and innovations.

In 2005–06, Alberta Ingenuity increased funding to new and existing recipients by $1.5 million from the previous year, bringing the total to $15.3 million. This expansion growth symbolizes the strength and growth of the endowment and reflects a clear strategic focus on new programs that will target the creation of top-quality research teams in areas of strategic importance to Alberta.

Alberta Ingenuity initiatives facilitate excellence both in idea generation and in product development, and in the past year have demonstrated the following results:

Alberta Ingenuity Institutes:

- Alberta Ingenuity manages the Alberta Prion Research Institute to support research in the prevention and management of prion-related diseases, such as mad cow disease, scrapie and chronic wasting disease, and the serious economic and social consequences associated with these.
- In its first year, the Alberta Prion Research Institute created a top tier advisory council and management board, issued two calls for research proposals, developed an infrastructure plan and recruitment strategy and awarded more than $6 million in research funding.
- Strategic planning for the creation of additional Alberta Ingenuity Institutes, based on the success of the Prion Institute model, was actively developed in 2005–06.

Alberta Ingenuity Centres:

- Alberta Ingenuity continues to support four internationally recognized Alberta Ingenuity Centres. In 2005–06, approximately $5.7 million was committed to the ongoing achievements of these centres, which include: Alberta Ingenuity Centre for Carbohydrate Science, Alberta Ingenuity Centre for Machine Learning, Alberta Ingenuity Centre for Water Research and Alberta Ingenuity Centre for In Situ Energy.
- Significant achievements within the Alberta Centres Program in 2005–06 include: 113 new investigators recruited to Alberta, nearly $1.0 million from industry partners, and 121 graduate students engaged. This program was also responsible for the production of seven licenses and patents. In addition, this year saw the redevelopment of the centres' management advisory boards to include a greater degree of community or industrial integration.

- A new call for centre proposals was also initiated. This resulted in Alberta Ingenuity receiving 17 letters of intent for new centres, of which six were asked to develop full proposals for consideration. The selection of an additional centre will be finalized by summer of 2006–07.

New Faculty and Fellows:

- $1.2 million funding was awarded to 11 rising stars at Alberta universities through the New Faculty Award program. This program allows talented young researchers to establish research teams at Alberta universities, thereby strengthening the research capabilities in the areas of strategic importance to Alberta.
- Approximately $1.8 million in new funding for Alberta Ingenuity Fellows was approved for top postdoctoral fellows. This program is being rolled into the New Faculty Awards program, to provide rising stars a more powerful start in the establishment of research teams with strong roots in Alberta.

Industrial Associates:

- Alberta Ingenuity plans to double the size of this program, which places researchers in positions at the leading edge of applied research in an industrial setting, where they can make an immediate and evident difference. This program is also an effective aid for start-up and infant technology-based companies who gain research expertise at a relatively low cost due to the infusion of knowledge provided through the program setup and funding.
- Six competitions were held, resulting in approximately $2.45 million in new funding commitments for 2005–06. There are currently 64 research associates, an increase of 15 from 2004–2005, working on new ideas, processes and products in Alberta. To date, 71 companies have benefited from this fuel for innovation.

Students:

- Approximately $3.3 million in funding supported 283 students in 2005–06. Those supported are the top science and engineering graduate students in the country, studying at an Alberta university. This program has been reviewed to ensure that it remains a strong and effective tool for the much-needed recruitment of excellent international students to Alberta.

Goal 2: To exemplify excellence in strategic areas

- Alberta Ingenuity is advised by the Science and Engineering Advisory Council, an international group of research experts and leaders from broad areas, such as the commercialization of innovations, technology and policy, which provides strategic advice on program design and implementation.
- A network of expert peer reviewers, from both industry and academia, ensures that Alberta Ingenuity funding is provided to only the very best researchers. Provincial, national and international reviewers either participate in a review committee or provide expert advice in a written assessment.

Goal 3: To encourage and enhance innovation in industry

- The primary objective of the Alberta Ingenuity Centres program is to mobilize Alberta's science and engineering research talent in the academic, private and public sectors and apply it to the task of developing Alberta's economy and improving the quality of life of Canadians. The centres train highly qualified personnel and encourage collaborations between Alberta industry and these personnel to promote the discovery and subsequent commercialization of research results.
- The aim of the Industrial Associates program is to increase the competitive advantage of Alberta-based companies through injection of excellent

research talent into innovative product, process or service development initiatives, so as to encourage the development of a more diversified Alberta economy. The plans to double this program demonstrate Alberta Ingenuity's commitment to enhanced innovation in Alberta industry.

- Alberta Ingenuity has also increased its commitment to the internship program delivered in Alberta through Mathematics of Information Technology and Complex Systems (MITACS). In partnership with Western Economic Diversification Canada, Alberta Ingenuity supported 12 students working as interns in Alberta companies in 2005–06. As a result of the success of the program, and of the growing recognition of mathematics as a new driver of innovation, plans to double this program in 2006–07 are in place.

Goal 4: To champion science and engineering research in the community

- In November 2005, Alberta Ingenuity launched the annual Alberta Ingenuity Lectures to introduce the broader research community and the public to inspirational leaders of innovation and excellence in research. This year's guest lecturer was Bill Buxton, principle researcher with Microsoft Research.
- Alberta Ingenuity is the primary sponsor and program director of the new Banff Science Communications program, a premiere international program for fostering excellence in science communications.
- Alberta Ingenuity provided media relations training through workshops and master classes to over 400 Alberta researchers.
- Alberta Ingenuity is a patron of the foremost Alberta science and engineering awards events.
- Alberta Ingenuity launched a series of science cafes for both MLAs and the general public, which bring science topics to broader audiences for discussion.

Goal 5: To build partnerships in research education and training that develop a science culture and interest in science careers

- Alberta Ingenuity increased its sponsorship of science and engineering camps for Alberta students at the University of Alberta, University of Calgary and University of Lethbridge, as well as special science-focused programs aimed at engaging youth in science career options.
- Alberta Ingenuity launched the development of several initiatives that will enhance the professional development for the specialization of science teachers and fuel interest in future science careers among students. Initiatives included support for the Alberta Ingenuity Summer Teachers' Institute.
- Alberta Ingenuity continues to participate in, and be a major sponsor of, the Alberta Teachers' Association's annual Science Council Conference.

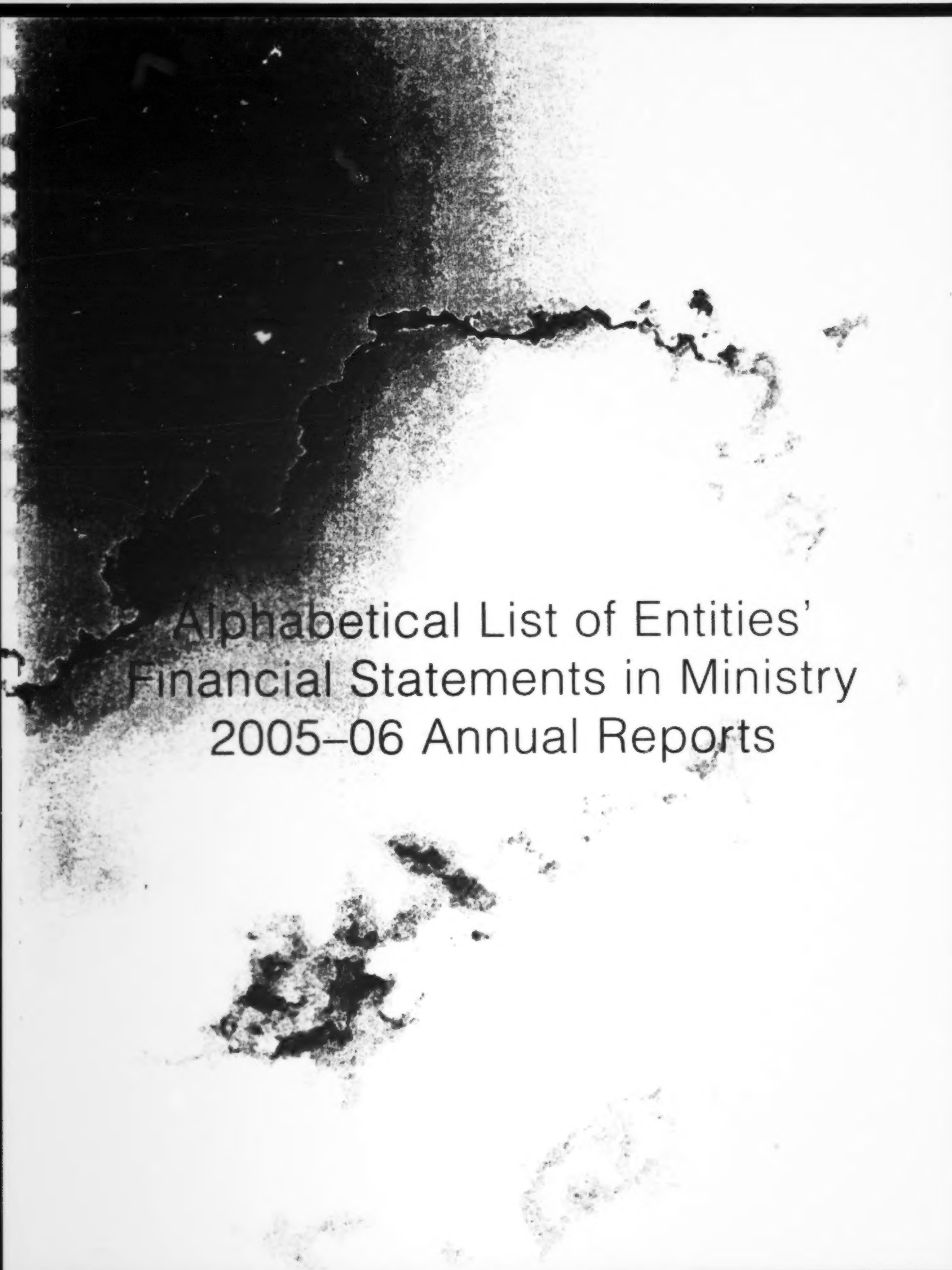
Goal 6: To be responsible stewards of the endowment and manage expenditures effectively

- At the end of the 2005–06 fiscal year, the value of the endowment had increased more than $166 million over the previous year and now sits at approximately $716 million. While the value of the endowment continues to grow, operational costs remain low. This dynamic ensures a continued increase in the return on investment of Alberta Ingenuity funds.
- A provincial government-appointed board of trustees, chaired by Alvin Libin of Calgary, governs Alberta Ingenuity. This board consists of 12 trustees, six of whom are nominated representatives of educational institutions and professional organizations, the other six of whom represent the general public.

- The board of trustees is responsible for the approval of the Alberta Ingenuity annual budget and spending. This ensures that Alberta Ingenuity expenditures fall within legislated guidelines.
- Management of the endowment is currently the responsibility of Alberta Finance, with all transfers from the endowment requiring board of trustee approval.

Anticipated Changes or New Directions

- In 2005–06, the Legislative Assembly approved the *Access to the Future Act* that provided an additional $500 million for the endowment, of which $100 million was realized.
- Alberta Ingenuity is poised to show leadership in addressing national and international challenges. By creating large-scale research enterprises focused on areas of strategic importance, these research innovation and commercialization accelerators will dramatically impact Alberta's success and prosperity in the province throughout our next 100 years.



Alphabetical List of Entities' Financial Statements in Ministry 2005–06 Annual Reports

Entities Included in the Consolidated Government Reporting Entity

Ministry, Department, Fund or Agency	**Ministry Annual Report**
Access to the Future Fund[1]	Advanced Education
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Heritage Foundation for Medical Research Endowment Fund	Finance
Alberta Heritage Savings Trust Fund	Finance
Alberta Heritage Scholarship Fund	Finance
Alberta Heritage Science and Engineering Research Endowment Fund	Finance
Alberta Historical Resources Foundation	Community Development
Alberta Insurance Council	Finance
Alberta Local Authorities Pension Plan Corporation[2]	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Finance
Alberta School Foundation Fund	Education
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Finance
Alberta Social Housing Corporation	Seniors and Community Supports
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Management Inc.	Finance

[1] Established July 10, 2005.

[2] Incorporated December 16, 2005.

Ministry, Department, Fund or Agency	Ministry Annual Report
ATB Investment Services Inc.	Finance
ATB Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Alberta Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Alberta Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Southwest Alberta Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Credit Union Deposit Guarantee Corporation	Finance
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Advanced Education	Advanced Education
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Education	Education
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Seniors and Community Supports	Seniors and Community Supports
Department of Solicitor General and Public Security	Solicitor General and Public Security

Ministry, Department, Fund or Agency	Ministry Annual Report
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[3]	Aboriginal Affairs and Northern Development
Ministry of Advanced Education	Advanced Education
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[3]	Economic Development
Ministry of Education	Education
Ministry of Energy	Energy
Ministry of Environment[3]	Environment
Ministry of Executive Council[3]	Executive Council
Ministry of Finance	Finance
Ministry of Gaming	Gaming
Ministry of Government Services[3]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[3]	Human Resources and Employment
Ministry of Infrastructure and Transportation[3]	Infrastructure and Transportation

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[3] Ministry includes only the departments so separate departmental financial statements are not necessary.

Ministry, Department, Fund or Agency	Ministry Annual Report
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[3]	International and Intergovernmental Relations
Ministry of Justice[3]	Justice
Ministry of Municipal Affairs[3]	Municipal Affairs
Ministry of Restructuring and Government Efficiency[3]	Restructuring and Government Efficiency
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Solicitor General and Public Security	Solicitor General and Public Security
Ministry of Sustainable Resource Development	Sustainable Resource Development
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Community Boards:	Seniors and Community Supports
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
South Region Community Board	
Persons with Developmental Disabilities Provincial Board	Seniors and Community Supports
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Safety Codes Council	Municipal Affairs
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General and Public Security
Wild Rose Foundation	Community Development

Entities Not Included in the Consolidated Government Reporting Entity

Fund or Agency	Ministry Annual Report
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan — Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan — Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	Finance
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Plan	Human Resources and Employment

Schools, Universities, Colleges and Hospitals Included in the Consolidated Government Reporting Entity on a Modified Equity Basis[4]

School Boards and Schools	Ministry Annual Report
Almadina School Society	Education
Aspen View Regional Division No. 19	Education
Aurora School Ltd.	Education
Battle River Regional Division No. 31	Education
Black Gold Regional Division No. 18	Education
Boyle Street Education Centre	Education
Buffalo Trail Public Schools Regional Division No. 28	Education
Calgary Arts Academy Society	Education
Calgary Girls' School Society*	Education
Calgary Roman Catholic Separate School District No. 1	Education
Calgary School District No. 19	Education
Calgary Science School Society	Education
Canadian Rockies Regional Division No. 12	Education
CAPE-Centre for Academic and Personal Excellence Institute	Education
Chinook's Edge School Division No. 73	Education
Christ the Redeemer Catholic Separate Regional Division No. 3	Education
Clearview School Division No. 71	Education
East Central Alberta Catholic Separate Schools Regional Division No. 16	Education
East Central Francophone Education Region No. 3	Education
Edmonton Catholic Separate School District No. 7	Education
Edmonton School District No. 7	Education
Elk Island Catholic Separate Regional Division No. 41	Education

[4] The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has issued standards that require controlled entities to be fully consolidated line-by-line. In a transitional period to March 31, 2008, the Ministry is permitted to use the modified equity method of accounting. Under the modified equity method, the controlled entities' net assets and operating results would be included in one line on the Ministry's consolidated statements of financial position and operations, respectively. The Ministry has not yet included the financial statements of these controlled entities. In the transitional period, the government will assess when and how to include these controlled entities in the Ministry's consolidated financial statements. The financial results of these controlled entities are included in the consolidated financial statements of the Province of Alberta for the year ended March 31, 2006 on a modified equity basis.

School Boards and Schools	Ministry Annual Report
Elk Island Public Schools Regional Division No. 14	Education
Evergreen Catholic Separate Regional Division No. 2	Education
Foothills School Division No. 38	Education
Fort McMurray Roman Catholic Separate School District No. 32	Education
Fort McMurray School District No. 2833	Education
Fort Vermilion School Division No. 52	Education
Foundations for the Future Charter Academy Charter School Society	Education
Golden Hills School Division No. 75	Education
Grande Prairie Roman Catholic Separate School District No. 28	Education
Grande Prairie Public School District No. 2357	Education
Grande Yellowhead Regional Division No. 35	Education
Grasslands Regional Division No. 6	Education
Greater North Central Francophone Education Region No. 2	Education
Greater Southern Public Francophone Education Region No. 4	Education
Greater Southern Separate Catholic Francophone Education Region No. 4	Education
Greater St. Albert Catholic Regional Division No. 29	Education
High Prairie School Division No. 48	Education
Holy Family Catholic Regional Division No. 37	Education
Holy Spirit Roman Catholic Separate Regional Division No. 4	Education
Horizon School Division No. 67	Education
Lakeland Roman Catholic Separate School District No. 150	Education
Lethbridge School District No. 51	Education
Living Waters Catholic Regional Division No. 42	Education
Livingstone Range School Division No. 68	Education
Medicine Hat Catholic Separate Regional Division No. 20	Education
Medicine Hat School District No. 76	Education
Moberly Hall School Society	Education

School Boards and Schools	**Ministry Annual Report**
Mother Earth's Children's Charter School Society	Education
New Horizons Charter School Society	Education
Northern Gateway Regional Division No. 10	Education
Northern Lights School Division No. 69	Education
Northland School Division No. 61	Education
Northwest Francophone Education Region No. 1	Education
Palliser Regional Division No. 26	Education
Parkland School Division No. 70	Education
Peace River School Division No. 10	Education
Peace Wapiti School Division No. 76	Education
Pembina Hills Regional Division No. 7	Education
Prairie Land Regional Division No. 25	Education
Prairie Rose Regional Division No. 8	Education
Red Deer Catholic Regional Division No. 39	Education
Red Deer School District No. 104	Education
Rocky View School Division No. 41	Education
St. Albert Protestant Separate School District No. 6	Education
St. Paul Education Regional Division No. 1	Education
St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38	Education
Sturgeon School Division No. 24	Education
Suzuki Charter School Society	Education
Westmount Charter School Society	Education
Westwind School Division No. 74	Education
Wetaskiwin Regional Division No. 11	Education
Wild Rose School Division No. 66	Education
Wolf Creek School Division No. 72	Education

Universities	Ministry Annual Report
Athabasca University	Advanced Education
The University of Alberta	Advanced Education
The University of Calgary	Advanced Education
The University of Lethbridge	Advanced Education

Colleges	Ministry Annual Report
Alberta College of Art and Design	Advanced Education
Bow Valley College	Advanced Education
Grande Prairie Regional College	Advanced Education
Grant MacEwan College	Advanced Education
Keyano College	Advanced Education
Lakeland College	Advanced Education
Lethbridge Community College	Advanced Education
Medicine Hat College	Advanced Education
Mount Royal College	Advanced Education
NorQuest College	Advanced Education
Northern Lakes College	Advanced Education
Olds College	Advanced Education
Portage College	Advanced Education
Red Deer College	Advanced Education

[4] The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has issued standards that require controlled entities to be fully consolidated line-by-line. In a transitional period to March 31, 2008, the Ministry is permitted to use the modified equity method of accounting. Under the modified equity method, the controlled entities' net assets and operating results would be included in one line on the Ministry's consolidated statements of financial position and operations, respectively. The Ministry has not yet included the financial statements of these controlled entities. In the transitional period, the government will assess when and how to include these controlled entities in the Ministry's consolidated financial statements. The financial results of these controlled entities are included in the consolidated financial statements of the Province of Alberta for the year ended March 31, 2006 on a modified equity basis.

Technical Institutes and The Banff Centre	Ministry Annual Report
Northern Alberta Institute of Technology	Advanced Education
Southern Alberta Institute of Technology	Advanced Education
The Banff Centre for Continuing Education	Advanced Education

Regional Health Authorities and Other Health Institutions	Ministry Annual Report
Alberta Cancer Board	Health and Wellness
Alberta Mental Health Board	Health and Wellness
Aspen Regional Health Authority	Health and Wellness
Calgary Health Region	Health and Wellness
Chinook Regional Health Authority	Health and Wellness
David Thompson Regional Health Authority	Health and Wellness
East Central Health	Health and Wellness
Northern Lights Health Region	Health and Wellness
Peace Country Health	Health and Wellness
Palliser Health Region	Health and Wellness